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Principles and Practices of Banking

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Chapterwise Question Bank
Edition January 2026
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Published by :
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CHAPTER 1
Banker-Customer Relationship

Oct/Nov 2018

1. According to the fundamental principles of banking, what is the primary function of a banker?

(A) Exclusively providing secure storage facilities like safe deposit lockers and custodial services to the public.

(B) Accepting money as deposits from the public and deploying it through loans and investments.

(C) Solely acting as a financial intermediary for government transactions, including tax collection and subsidy disbursement.

(D) Primarily engaging in the cross-selling of third-party financial products like insurance policies and mutual fund units.

Ans :

(B) Accepting money as deposits from the public and deploying it through loans and investments.

The basic function of a banker revolves around mobilizing funds from the public in the form of deposits. These collected funds are then channelled into the economy by deploying them as loans to borrowers or through various investments. This core activity forms the foundation of the banking business, with other services being ancillary to this primary role.

May/June 2005

2. As per Section 5(b) of the Banking Regulation Act, 1949, which of the following is NOT an essential requirement for an activity to be defined as 'Banking'?

(A) Offering a mandatory minimum interest rate on all deposits.

(B) Accepting deposits of money from the public.

(C) Accepting deposits for the purpose of lending or investment.

(D) Deposits being withdrawable by cheque, draft, order or otherwise.

Ans :

(A) Offering a mandatory minimum interest rate on all deposits.

The definition of 'Banking' under the BR Act, 1949, specifies that the activity must involve accepting deposits from the public for lending or investment, with the funds being repayable on demand or otherwise. While interest is often paid, the Act does not mandate a minimum interest rate as an essential condition for the definition of banking itself.

Oct/Nov 2022

3. Which of the following statements correctly distinguishes between a banker and a moneylender based on the judgement in Kadiresan Chettiar vs. Ramanathan Chettiar?

(A) A moneylender must be registered under the Companies Act, while a banker is not.

(B) A banker primarily lends for business purposes, while a moneylender lends for personal needs.

(C) A banker lends depositors' money, while a moneylender lends their own money.

(D) A moneylender accepts deposits from the public, whereas a banker does not.

Ans :

(C) A banker lends depositors' money, while a moneylender lends their own money.

The key distinction highlighted in the case of Kadiresan Chettiar vs. Ramanathan Chettiar is the source of funds for lending. A banker acts as an intermediary, lending the money collected from its depositors. In contrast, a moneylender, sahukar, or shetty typically lends from their own capital and does not operate using public deposits.

May/June 2014

4. In the case of Mahalaxmi Bank Limited vs. Registrar of Companies, what was the crucial factor that led to the decision that the company could not be considered a banking company?

(A) The company was giving loans to its own members only.

(B) The company accepted deposits but used them for its own trading business.

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(C) The company was not incorporated under the Indian Companies Act.
(D) The company gave loans to the public but did not accept deposits from the public.

Ans :

(D) The company gave loans to the public but did not accept deposits from the public.
The judgment in this case established that accepting deposits from the public is a mandatory condition to be classified as a banking company under Section 5 of the BR Act. Even though Mahalaxmi Bank Ltd. was engaged in the activity of lending money to the public, its failure to accept deposits from the public disqualified it from being considered a bank.

Oct/Nov 2007

5. According to Section 6 of the Banking Regulation Act, 1949, banks are authorized to undertake several other transactions besides their core functions. Which of the following is NOT listed as one of these authorized transactions?
(A) Discounting of bills and collection of cheques.
(B) Issuing letters of credit and guarantees.
(C) Manufacturing and trading of commercial goods.
(D) Conducting foreign exchange transactions.

Ans :

(C) Manufacturing and trading of commercial goods.
Section 6 of the BR Act, 1949, authorizes banks to perform a range of financial services, including discounting bills, collecting cheques, remittances, issuing guarantees, and handling foreign exchange. However, engaging in non-financial activities like the manufacturing or trading of goods is not a permitted banking activity, as the core purpose must be lending or investment of deposits.

May/June 2023

6. Identify the statement that correctly reflects the modern legal understanding of who qualifies as a 'customer' of a bank, discarding the older 'duration theory'.
(A) A person must maintain an account for a minimum of six months to be considered a customer.
(B) A person whose money has been accepted by the banker is a customer, irrespective of the duration.
(C) A person becomes a customer only after conducting a specified number of transactions.
(D) A person is only a customer if they have a recurring deposit or a loan account with the bank.

Ans :

(B) A person whose money has been accepted by the banker is a customer, irrespective of the duration.
The older 'duration theory,' advocated by Sir John Paget, emphasized a habit of dealing over time. However, this view is now discarded. The modern interpretation, supported by court judgments like Central Bank of India Ltd. vs. V.Gopinathan Nair, holds that a person becomes a customer as soon as the bank accepts their money, establishing the relationship regardless of how long it has existed.

Oct/Nov 2010

7. For the purpose of KYC requirements, the definition of a 'Customer' is broad. Which of the following individuals or entities would be included in this definition?
I. A person who maintains a savings account with the bank.
II. The beneficial owner on whose behalf an account is maintained.
III. A person who conducts a one-time high-value wire transfer through the bank.
(A) Only (I)
(B) Only (I) and (II)
(C) Only (I) and (III)
(D) (I), (II), and (III)

Ans :

(D) (I), (II), and (III)
The KYC definition of a customer is comprehensive. It includes not only those who maintain an account but also the beneficial owners of those accounts. Furthermore, it covers individuals or entities conducting significant one-off transactions, such as a high-value wire transfer, that could pose reputational or other risks to the bank, even without an ongoing account relationship.

May/June 2011

8. When a customer deposits money into their savings account, what is the primary relationship established between the bank and the customer?

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(A) Debtor and Creditor
(B) Agent and Principal
(C) Bailee and Bailor
(D) Trustee and Beneficiary

Ans :

(A) Debtor and Creditor
Upon accepting a deposit, the bank becomes a borrower of the customer's money, making the bank the debtor. The customer, who has lent the money to the bank, becomes the creditor. The deposited money becomes the property of the bank, and the bank has an obligation to repay this debt to the customer upon demand as per the agreed terms.

Oct/Nov 2025

9. Which of the following is an incorrect statement regarding the features of the Debtor-Creditor relationship between a bank and its customer?
(A) The bank is free to use the customer's deposited money as it deems beneficial.
(B) The customer must make a demand for payment in a specified manner, such as by cheque.
(C) The bank must voluntarily repay the deposit amount on the maturity date without any demand.
(D) The law of limitation for repayment begins only after a demand has been made by the customer.

Ans :

(C) The bank must voluntarily repay the deposit amount on the maturity date without any demand.
A key feature of the debtor-creditor relationship in banking is that the customer (creditor) must make a formal demand for repayment. The banker (debtor) is not required to repay the money voluntarily, even for fixed deposits upon maturity. The obligation to pay arises only when the customer initiates a demand in the prescribed manner and during business hours.

May/June 2016

10. When a bank grants a loan or an advance to a customer, how does the primary relationship between them change?
(A) The bank becomes the Creditor, and the customer becomes the Debtor.
(B) The bank becomes the Debtor, and the customer becomes the Creditor.
(C) The bank becomes the Agent, and the customer becomes the Principal.
(D) The bank becomes the Trustee, and the customer becomes the Beneficiary.

Ans :

(A) The bank becomes the Creditor, and the customer becomes the Debtor.
When a bank lends money, the roles are reversed compared to a deposit transaction. The bank is the lender, making it the creditor, as it has the right to receive the money back. The customer, who has borrowed the money and owes it to the bank, becomes the debtor. This relationship is formalized through loan documents and security offerings.

Oct/Nov 2014

11. Under what circumstances does a bank act as a Trustee for its customer?
(A) When the bank collects a cheque on behalf of the customer.
(B) When the customer hires a safe deposit locker from the bank.
(C) When the bank issues a duplicate demand draft to the customer.
(D) When a customer deposits money with the bank for a specific purpose, like purchasing shares.

Ans :

(D) When a customer deposits money with the bank for a specific purpose, like purchasing shares.
A trustee relationship arises when the bank holds assets or funds not as a general deposit but for a specific, mandated purpose for the benefit of a beneficiary. If a customer entrusts money to the bank with explicit instructions, such as for purchasing specific securities, the bank holds those funds in a fiduciary capacity as a trustee.

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May/June 2019

12. Certain individuals deposited ₹2,000 each with Palai Central Bank Ltd. as guarantee money to purchase cars. Before the cars could be delivered, the bank failed. The court ruled that the money should be refunded as preferential debts. What relationship did the court determine existed between the bank and these individuals?
(A) Debtor-Creditor
(B) Trustee-Beneficiary
(C) Creditor-Debtor

(D) Bailee-Bailor

Ans :

(B) Trustee-Beneficiary
In the case of Subramanyan Pillai vs. Palai Central Bank Ltd., the court held that the bank acted as a trustee. The money was not a general deposit but was entrusted to the bank for the specific purpose of providing a guarantee for car purchases. Therefore, the bank had a fiduciary responsibility to hold the money for that purpose only.

Oct/Nov 2006

13. According to Section 148 of the Indian Contract Act, 1872, what relationship is formed when a customer leaves a sealed box of valuables with the bank for safekeeping?
(A) Lessor-Lessee
(B) Agent-Principal
(C) Bailee-Bailor
(D) Mortgagor-Mortgagee

Ans :

(C) Bailee-Bailor
When a customer deposits specific articles, documents, or valuables for safekeeping, the bank becomes the bailee, and the customer is the bailor. This relationship is governed by the principles of bailment under the Indian Contract Act, 1872. The bank's duty is to take reasonable care of the goods entrusted to it and is liable for loss due to its negligence.

May/June 2021

14. A customer gives a standing instruction to their bank to pay their monthly insurance premium from their account. In this scenario, what is the relationship between the bank and the customer?
(A) The bank is the Principal, and the customer is the Agent.
(B) The bank is the Trustee, and the customer is the Beneficiary.
(C) The bank is the Debtor, and the customer is the Creditor.
(D) The bank is the Agent, and the customer is the Principal.

Ans :

(D) The bank is the Agent, and the customer is the Principal.
When a bank performs services like collecting cheques, paying bills, or acting on standing instructions on behalf of a customer, it is acting as an agent. The customer, who has delegated this authority to the bank, is the principal. This relationship is based on the principles of agency law as defined in the Indian Contract Act, 1872.

Oct/Nov 2016

15. The relationship of agency between a bank and its customer terminates under which of the following conditions?
I. On the death of the customer.
II. On the insolvency of the customer.
III. On the completion of the work assigned.
(A) Only (I) and (II)
(B) Only (II) and (III)
(C) Only (I) and (III)
(D) (I), (II), and (III)

Ans :

(D) (I), (II), and (III)
The contract of agency is a personal one and terminates automatically upon certain events. These include the death, lunacy, or insolvency of the principal (the customer). The relationship also naturally concludes once the specific task for which the agency was created, such as the collection of a particular cheque or payment of a specific bill, has been completed.

May/June 2025

16. When a customer hires a safe deposit locker from a bank, the relationship is that of a Lessor and Lessee. If the contents of the locker are lost due to a fire caused by the bank's negligence, what is the extent of the bank's liability?
(A) The bank has zero liability as it is an act of fire.
(B) The bank's liability is limited to an amount equivalent to one hundred times the annual rent.
(C) The bank is liable for the full market value of the lost contents.
(D) The bank's liability is limited to an amount equivalent to ten times the annual rent.

Ans :

(B) The bank's liability is limited to an amount equivalent to one hundred times the annual rent. While banks are not liable for locker content loss due to natural calamities or the customer's own fault, they are responsible for incidents arising from their own shortcomings, negligence, or employee fraud. In such cases, the bank's

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liability is capped at an amount equivalent to one hundred times the prevailing annual rent of the safe deposit locker.

Oct/Nov 2019

17. A customer's safe deposit locker at a bank is broken into during a robbery. The investigation reveals that the bank's security systems were outdated and the alarms were non-functional, which constitutes negligence. What is the bank's position regarding liability for the customer's loss?

(A) The bank is not liable as robbery is a criminal act beyond its control.
(B) The bank is liable, but its liability is capped at 100 times the annual locker rent.
(C) The bank is fully liable for the declared value of all items in the locker.
(D) The bank is only liable if the robbery was committed by one of its own employees.

Ans :

(B) The bank is liable, but its liability is capped at 100 times the annual locker rent.
The bank has a responsibility to exercise appropriate care to protect its premises. Incidents like theft or robbery occurring due to the bank's own negligence, such as having faulty security systems, make the bank liable. However, this liability for the loss of locker contents is limited to an amount equivalent to 100 times the annual rent.

May/June 2009

18. A customer loses their original Fixed Deposit Receipt and requests the bank to issue a duplicate. The bank agrees but asks the customer to sign a document promising to compensate the bank for any loss that might arise from the misuse of the original receipt. What relationship is created by this act?

(A) Indemnifier and Indemnified
(B) Trustee and Beneficiary
(C) Agent and Principal
(D) Pledger and Pledgee

Ans :

(A) Indemnifier and Indemnified
This scenario is a classic example of a contract of indemnity, as defined under Sec. 124 of the Indian Contract Act, 1872. The customer, by promising to save the bank from any loss, acts as the Indemnifier. The bank, which is being protected from potential loss, is the Indemnified or indemnity holder. This is common for issuing duplicate instruments.

Oct/Nov 2011

19. Consider the following summary of banker-customer relationships for different transactions:

1. Loan from bank: Bank is Creditor, Customer is Debtor.
2. Safe custody: Bank is Bailee, Customer is Bailor.
3. Locker: Bank is Lessor, Customer is Lessee.
4. Collection of Cheque: Bank is Trustee, Customer is Beneficiary.

Which of the relationships listed above is incorrectly stated?

(A) 1
(B) 2
(C) 3
(D) 4

Ans :

(D) 4
When a bank undertakes the collection of a cheque on behalf of a customer, it acts as an agent for its principal, the customer. The relationship is that of Agent-Principal, not Trustee-Beneficiary. The bank is performing a service as delegated by the customer. The other three relationships listed (Creditor-Debtor, Bailee-Bailor, and Lessor-Lessee) are correctly stated for their respective transactions.

May/June 2010

20. Match List-I (Transaction) with List-II (Bank's Role) and select the correct code.

	List-I (Transaction)		**List-II (Bank's Role)**
P.	Pledge	1.	Mortgagee
Q.	Mortgage	2.	Lessor
R.	Safe Deposit Locker	3.	Hypothecatee
S.	Hypothecation	4.	Pawnee (Pledgee)

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-3, Q-1, R-2, S-4

Ans :

(A) P-4, Q-1, R-2, S-3

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In a pledge, the bank (lender) is the Pawnee or Pledgee. In a mortgage, the bank is the Mortgagee. When providing a safe deposit locker, the bank acts as the Lessor. In a hypothecation transaction, where the borrower retains possession of the asset, the bank is the Hypothecatee. Therefore, the correct matching is P-4, Q-1, R-2, S-3.

Oct/Nov 2024

21. When a customer deposits money into an account but does not provide any instructions for its disposal, what is the relationship between the bank and the customer concerning those funds?
(A) Agent and Principal
(B) Debtor and Creditor
(C) Trustee and Beneficiary
(D) Lessor and Lessee

Ans :

(C) Trustee and Beneficiary
If a customer deposits money without specific instructions, or if articles are left at the bank by mistake, the bank holds these assets in a fiduciary capacity. It cannot treat the money as a general deposit. In this situation, the bank acts as a trustee, holding the assets for the benefit of the customer, who is the beneficiary, until proper instructions are received.

May/June 2017

22. Which of the following pairs representing the banker-customer relationship is INCORRECT?
(A) Purchase of a draft - Bank is Debtor, Customer is Creditor
(B) Articles left by mistake - Bank is Bailee, Customer is Bailor
(C) Payee of a draft - Bank is Trustee, Payee is Beneficiary
(D) Standing instruction - Bank is Agent, Customer is Principal

Ans :

(B) Articles left by mistake - Bank is Bailee, Customer is Bailor
When articles are left at a bank by mistake, the bank holds them not as a bailee under a contract of bailment, but as a trustee for the rightful owner (beneficiary). The relationship of Bailee-Bailor arises specifically when items are deposited for safe custody. The other pairs correctly represent the specific relationships for those transactions.

Oct/Nov 2005

23. The table below compares Demand Deposits and Time Deposits.

Feature	Demand Deposits	Time Deposits
Repayment	Payable on Demand	Repaid after expiry of the Deposit Period
Interest Rate	Low interest rates or no interest	High interest rates, which vary according to period
Compo-sition	Includes current, savings, overdue deposits	For a period ranging from 7 days to 120 months

Based on this table, which statement is a correct inference?
(A) Time deposits cannot be held for a period less than 30 days.
(B) All demand deposits are non-interest bearing.
(C) An overdue time deposit is reclassified as a demand deposit.
(D) Interest rates on demand deposits are always higher than on time deposits.

Ans :

(C) An overdue time deposit is reclassified as a demand deposit.
The table clearly states that demand deposits include “overdue deposits.” This implies that once a time deposit matures and is not renewed or withdrawn, it ceases to be a time deposit and takes on the characteristics of a demand deposit, payable on demand. The table also shows time deposits can be for as short as 7 days and savings accounts (a type of demand deposit) do attract interest.

May/June 2020

24. What is the minimum and maximum period for which a time deposit can be accepted by a bank in India?
(A) 7 days to 120 months
(B) 15 days to 60 months
(C) 30 days to 240 months
(D) 1 day to 600 months

Ans :

(A) 7 days to 120 months

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As specified in the features of time deposits, they are accepted for a fixed period. This period has a defined range, starting from a minimum of 7 days and extending up to a maximum of 120 months (which is equivalent to 10 years). Banks offer different interest rates based on the duration chosen by the customer within this range.

Oct/Nov 2015

25. Which type of deposit account is primarily intended for businesses and enterprises, fluctuates widely, and typically does not earn any interest?

(A) Savings Deposit Account
(B) Recurring Deposit Account
(C) Current Deposit Account
(D) Flexi Deposit Account

Ans :

(C) Current Deposit Account
Current deposit accounts are designed to meet the needs of businesses, firms, and enterprises that have a high number of regular transactions. These accounts act as working funds, experience wide fluctuations in balance, and are structured as non-interest-bearing accounts. Their main purpose is to facilitate business operations rather than to encourage savings or earn returns.

May/June 2013

26. A customer wants to invest a lump sum amount for a fixed period and receive interest payments periodically (e.g., quarterly). Which type of time deposit product would be most suitable for this requirement?

(A) Fixed Deposit (periodical interest payment)
(B) Reinvestment Deposit Scheme
(C) Recurring Deposit Scheme
(D) Flexi Recurring Deposit

Ans :

(A) Fixed Deposit (periodical interest payment)
A traditional Fixed Deposit with a periodical interest payment option is designed for this exact need. The customer invests a lump sum, and the bank pays out the accrued interest at regular intervals (monthly, quarterly, etc.) as chosen by the customer. This differs from a reinvestment scheme where interest is compounded and paid only at maturity.

Oct/Nov 2021

27. What is the key feature of a Reinvestment Deposit Scheme?

(A) It allows for deposits to be made in variable installments.
(B) Interest is paid out to the customer on a monthly or quarterly basis.
(C) It is a short-term deposit with a tenure of less than one year.
(D) It offers cumulative interest which is paid along with the principal amount on maturity.

Ans :

(D) It offers cumulative interest which is paid along with the principal amount on maturity.
The defining characteristic of a Reinvestment Deposit Scheme, also known as a cumulative deposit, is that the interest earned during each compounding period is not paid out. Instead, it is added back to the principal amount. This process of compounding results in a higher effective yield, and the total accumulated amount (principal plus cumulative interest) is paid at maturity.

May/June 2024

28. What is a Hybrid or Flexi Deposit?

(A) A deposit that can be held in either Indian Rupee or a foreign currency.
(B) A deposit that combines the features of demand and fixed deposits.
(C) A deposit exclusively for Non-Resident Indians.
(D) A deposit that automatically converts into company shares upon maturity.

Ans :

(B) A deposit that combines the features of demand and fixed deposits.
A Hybrid or Flexi Deposit is a financial product that links a savings or current account (demand deposit) with a fixed deposit account. It offers the liquidity of a demand deposit and the higher interest rates of a fixed deposit. Funds above a certain threshold in the savings account are automatically transferred to a linked fixed deposit.

Oct/Nov 2008

29. Which of the following deposit accounts is specifically designed for Non-Resident Indians (NRIs) to maintain their income earned in India, such as rent or dividends?

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(A) Non-Resident (External) Rupee Account (NRE Account)
(B) Foreign Currency Non-Resident (Bank) Account - FCNR (B) Account
(C) Non-Resident Ordinary Rupee Account (NRO Account)
(D) Resident Foreign Currency (RFC) Account

Ans :

(C) Non-Resident Ordinary Rupee Account (NRO Account)
The Non-Resident Ordinary (NRO) Rupee Account is used by NRIs to manage their income earned within India, such as rent, dividends, or pension. The funds in this account are held in Indian Rupees. While the principal is generally not freely repatriable, the interest earned is, subject to applicable taxes and regulations.

May/June 2006

30. What is the primary role of a Merchant Banker?
(A) To provide short-term loans directly to retail customers for personal use.
(B) To manage the currency chests and distribution of cash to bank branches and ATMs.
(C) To exclusively handle foreign exchange transactions and international trade finance.
(D) To facilitate the transfer of capital from investors to corporates or governments, often through IPOs or FPOs.

Ans :

(D) To facilitate the transfer of capital from investors to corporates or governments, often through IPOs or FPOs.
Merchant bankers are financial intermediaries that specialize in corporate finance and advisory services. Their core function is to assist companies and governments in raising capital from the market. This involves managing public issues like Initial Public Offerings (IPOs) and Follow-up Public Offers (FPOs), and facilitating the flow of funds from investors to those who need capital.

Oct/Nov 2017

31. Which of the following activities is NOT typically part of the services offered by a merchant banker during a public issue?
(A) Providing long-term project loans from the bank's own funds.
(B) Obtaining regulatory clearances from SEBI and stock exchanges.
(C) Guaranteeing the subscription of the public issue through underwriting.
(D) Selecting the Registrar to the issue and fixing their remuneration.

Ans :

(A) Providing long-term project loans from the bank's own funds.
A merchant banker's role in a public issue is primarily advisory and managerial. They assist with regulatory compliance, planning, underwriting, and coordinating with other intermediaries like registrars and brokers. While they facilitate capital raising, they do not typically provide the project funding directly from their own balance sheet in the capacity of a merchant banker.

May/June 2008

32. In a lease financing arrangement, who holds the ownership of the asset?
(A) The Lessee, who uses the asset.
(B) The Lessor, who provides the finance for the asset.
(C) Both the Lessor and the Lessee have joint ownership.
(D) The ownership is transferred to the Lessee after the first lease payment.

Ans :

(B) The Lessor, who provides the finance for the asset.
A fundamental principle of lease financing is the separation of ownership and usage. The Lessor, which is the institution providing the finance (often a bank or leasing company), purchases the asset and remains its legal owner throughout the lease term. The Lessee only has the right to use the asset in exchange for paying lease rentals.

Oct/Nov 2013

33. Which of the following is considered an advantage of lease financing for the Lessee?
(A) The Lessee automatically gains full legal ownership of the asset at the end of the lease period.
(B) The asset can be used without incurring the full capital cost upfront, conserving working capital.
(C) Lease rentals are treated as a capital expenditure on the balance sheet, providing tax benefits.

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(D) The Lessee can use the asset for any alternative business purpose without restriction from the lessor.

Ans :

(B) The asset can be used without incurring the full capital cost upfront, conserving working capital.
A primary advantage for the lessee is the ability to acquire and use an asset without making a large initial capital investment. This conserves the lessee's capital for other operational needs. The cost is spread out over time through lease rentals, which are treated as revenue expenses, thereby reducing taxable profits.

May/June 2015

34. "Disadvantages to Lessee: (a) Ownership of the asset is held with the lessor and not with the lessee. (b) The asset is permitted to be used for agreed business purposes only; preventing from utilising the asset for alternative business purposes, if any. (c) Confiscation or repossession of the asset by the lessor on breach of terms and conditions."
Based on this text, which action by a lessee would likely be considered a breach of a standard lease agreement?
(A) Using the leased delivery truck for personal family trips on weekends.
(B) Using the leased machinery to manufacture the agreed-upon product.
(C) Paying the monthly lease rental on the due date.
(D) Performing regular maintenance on the leased asset as per the contract.

Ans :

(A) Using the leased delivery truck for personal family trips on weekends.
The text explicitly states that a disadvantage for the lessee is that the asset is permitted to be used for "agreed business purposes only." Using a commercial delivery truck for personal family trips would fall outside the scope of the agreed business use. This constitutes a breach of the terms, which could lead to penalties or repossession by the lessor.

Oct/Nov 2012

35. What is the key difference between a Charge Card and a Credit Card?
(A) A charge card has a pre-set spending limit, while a credit card does not.
(B) A credit card must be paid in full each month, while a charge card allows partial payment.
(C) A charge card holder must pay the balance in full upon receipt of the statement, while a credit card allows for partial payment.
(D) Charge cards do not charge an annual fee, whereas credit cards do.

Ans :

(C) A charge card holder must pay the balance in full upon receipt of the statement, while a credit card allows for partial payment.
The primary distinguishing feature lies in the repayment terms. For a charge card, the user is required to settle the entire outstanding balance by the due date, typically monthly. In contrast, a credit card provides the flexibility to pay the full amount, the minimum amount due, or any amount in between, with interest being charged on the unpaid balance.

May/June 2007

36. "A charge card is an electronic payment card, where the cardholder is not charged interest but needs the user to pay the balance due in full upon receipt of the statement, usually every month. ... Charge cards usually do not have a preset spending limit and the amount allowed to be drawn varies depending on the usage and payment record built up. Late fee is charged on delayed payments."
Based on the provided text, which statement about charge cards is incorrect?
(A) Cardholders are not charged interest on the outstanding amount.
(B) Delayed payments result in the imposition of a late fee.
(C) The spending power on a charge card can fluctuate based on the user's history.
(D) All charge cards come with a fixed, preset spending limit for security.

Ans :

(D) All charge cards come with a fixed, preset spending limit for security.
The text explicitly states that "Charge cards usually do not have a preset spending limit." Instead, the amount a user can spend depends on factors like their payment history and usage pattern. Therefore, the statement that all charge

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cards have a fixed, preset limit is incorrect according to the provided description of their features.

Oct/Nov 2009

37. How does a Debit Card function?
(A) It allows the user to borrow funds up to a sanctioned limit for purchases.
(B) The card is pre-loaded with a specific amount which decreases with each transaction.
(C) The transaction amount is debited directly from the cardholder's linked bank account.
(D) It functions as a charge card where the full balance must be paid at the end of the month.

Ans :

(C) The transaction amount is debited directly from the cardholder's linked bank account.
A debit card is a direct payment instrument. Unlike a credit card, it does not involve borrowing. When a purchase is made using a debit card, the funds are immediately or very quickly withdrawn from the cardholder's savings or current account that is linked to the card. It is essentially an electronic cheque.

May/June 2012

38. A credit card issued by a bank in partnership with a large retail chain, bearing the logos of both, and offering special discounts at that retail chain is known as a:
(A) Prepaid Card
(B) Co-branded Card
(C) Charge Card
(D) ATM Card

Ans :

(B) Co-branded Card
A co-branded card is the result of a partnership between a card issuer (like a bank) and a merchant or retailer. These cards typically feature the branding of both partners and are designed to build customer loyalty by offering specific rewards, points, or discounts when used with the sponsoring merchant, though they can be used elsewhere too.

Oct/Nov 2020

39. Which of the following is NOT a modern, technology-based remittance product that has largely made older methods like Mail Transfers (MT) redundant?
(A) National Electronic Funds Transfer (NEFT)
(B) Real Time Gross Settlement (RTGS)
(C) Unified Payment Interface (UPI)
(D) Banker's Cheques (BC)

Ans :

(D) Banker's Cheques (BC)
Banker's Cheques (BC), along with Demand Drafts (DD) and Mail Transfers (MT), are considered older, paper-based remittance methods. Modern technology-driven systems like NEFT, RTGS, IMPS, and UPI have become the prevalent methods for fund transfers due to their speed, efficiency, and convenience, making the older products largely redundant in the core banking environment.

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May/June 2022

40. Banks in India serve as distribution points for various government schemes. Which of the following is NOT listed as a government scheme facilitated by banks?
(A) Pradhan Mantri Fasal Bima Yojana (PMFBY)
(B) Public Provident Fund (PPF)
(C) Sovereign Gold Bond Scheme (SGB)
(D) Pradhan Mantri Jan Dhan Yojana (PMJDY)

Ans :

(A) Pradhan Mantri Fasal Bima Yojana (PMFBY)
The provided text lists several government schemes that banks help distribute, including PPF, SGB, NPS, SCSS, and PMJDY, among others. While banks are involved in the broader agricultural credit ecosystem, the Pradhan Mantri Fasal Bima Yojana (PMFBY), a crop insurance scheme, is not explicitly mentioned in the provided list of prominent schemes facilitated by banks in this context.

Oct/Nov 2023

41. What is a "Three-in-One Account" offered by banks as a third-party product?
(A) An account that combines a savings account, a loan account, and a credit card.
(B) An account that offers life insurance, health insurance, and vehicle insurance together.
(C) An account that links a Demat Account, a Trading Account, and a Savings/Current Account.
(D) A single account for depositing funds in three different currencies.

Ans :

(C) An account that links a Demat Account, a Trading Account, and a Savings/Current Account.

A "Three-in-One Account" is a bundled product designed for customers who invest in the stock market. It integrates three essential accounts: a bank account (Savings or Current) for fund transfers, a Demat account for holding securities in electronic form, and a Trading account for executing buy/sell orders on the stock exchange, providing seamless transactions.

May/June 2018

42. When a bank offers a service to handle certain funds or assets for a customer, often involving the management and administration of these assets according to specific instructions, it is known as:

(A) Trusteeship service
(B) Executorship service
(C) Escrow service
(D) Safe custody service

Ans :

(A) Trusteeship service

Trusteeship services involve the bank acting as a trustee to hold and administer funds or assets on behalf of a beneficiary. This is a broader fiduciary role than merely safekeeping, as it often includes active management, investment, and disposal of assets according to the terms of a trust deed or other legal arrangement.

Oct/Nov 2018

43. A bank agrees to act as an executor for a will made by one of its customers. What is the primary function of the bank in this role?

(A) To hold the will in safe custody until the customer's demise.
(B) To provide legal advice to the beneficiaries named in the will.
(C) To invest the assets of the estate to generate maximum returns for the bank.
(D) To ensure the legal and proper distribution of the deceased customer's estate as per the will.

Ans :

(D) To ensure the legal and proper distribution of the deceased customer's estate as per the will.

When a bank provides executorship services, it takes on the legal responsibility of an executor. Upon the death of the customer (testator), the bank's role is to obtain probate of the will, collect the deceased's assets, pay off any debts and taxes, and distribute the remaining estate to the beneficiaries exactly as specified in the will.

May/June 2005

44. What is the primary purpose of an Escrow Account?

(A) To provide a high-interest savings account option exclusively designed for corporate clients.
(B) To enable a party to exercise control over funds in an account held in another party's name until certain conditions are met.
(C) To facilitate secure international trade payments between an importer and an exporter through letters of credit.
(D) To hold government or corporate securities in electronic, dematerialized form for trading on the stock exchange.

Ans :

(B) To enable a party to exercise control over funds in an account held in another party's name until certain conditions are met.

An escrow account is a control mechanism. It is used in transactions where one party wants to ensure that funds paid to another party are used only for a specific purpose or are released only after certain contractual obligations have been fulfilled. The bank acts as a neutral third party managing the account based on the agreed-upon escrow terms.

Oct/Nov 2022

45. A software company signs a contract to develop an application for a client. The client agrees to pay in milestones. To ensure the funds are secure and released only upon successful completion of each milestone, they open an account at a bank where both parties must provide joint instructions for any withdrawal. This type of service is known as:

(A) Trusteeship Service
(B) Executorship Service
(C) Escrow Service
(D) Safe Custody Service

Ans :

(C) Escrow Service

This scenario perfectly describes an escrow service. The bank holds the funds as a neutral third party. The money is released to the software company (the beneficiary of the funds) only after specific conditions (milestones) are met and

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certified, often requiring joint instruction. This protects the client from paying for incomplete work and assures the developer of payment upon performance.

May/June 2014

46. Assertion (A): A person who only lends his own money and does not accept deposits from the public cannot be called a 'banker'.
Reason (R): The definition of 'banking' under the Banking Regulation Act, 1949, mandatorily requires the acceptance of deposits from the public for the purpose of lending or investment.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a correct statement, distinguishing moneylenders from bankers. Reason (R) provides the precise legal basis for this distinction. The very definition of banking in the BR Act hinges on the acceptance of public deposits. Since a moneylender who lends their own capital does not fulfill this essential condition, they are not classified as bankers.

Oct/Nov 2007

47. Consider the following statements regarding the banker-customer relationship:
1. When a bank lends money, it is the creditor.
2. When a customer deposits valuables for safekeeping, the bank is the bailee.
3. When a customer hires a locker, the bank is the lessee.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(B) 1 and 2 only
Statement 1 is correct; in a loan transaction, the lending bank is the creditor. Statement 2 is also correct; for safe custody of valuables, the bank acts as a bailee. However, Statement 3 is incorrect. When a customer hires a locker, the bank is the owner of the locker and provides it on lease, making the bank the lessor, not the lessee.

May/June 2023

48. Mr. Sharma remitted ₹5 lakhs to his bank with a specific instruction to purchase shares of XYZ Ltd. The bank purchased shares worth ₹3 lakhs but then went into liquidation before purchasing the rest. For the unspent amount of ₹2 lakhs, what is the relationship between the bank and Mr. Sharma?
(A) Debtor-Creditor, meaning Mr. Sharma is an ordinary creditor with no preference.
(B) Trustee-Beneficiary, meaning Mr. Sharma is entitled to a refund as a preferential creditor.
(C) Agent-Principal, meaning Mr. Sharma can only sue the bank for damages for non-performance.
(D) Bailee-Bailor, meaning the bank was only responsible for the safekeeping of the physical money.

Ans :

(B) Trustee-Beneficiary, meaning Mr. Sharma is entitled to a refund as a preferential creditor.
When money is remitted for a specific purpose, the bank holds it in a fiduciary capacity as a trustee. In this case, the unspent ₹2 lakhs were still held under the specific instruction to buy shares. Since the bank failed before fulfilling this instruction, it held the money as a trustee for Mr. Sharma (the beneficiary), who is entitled to its refund preferentially.

Oct/Nov 2010

49. Identify the correct statement regarding deposit products.
(A) Current accounts are designed to inculcate a savings habit and attract high interest.
(B) A Recurring Deposit is a type of time deposit where investments are made in installments.
(C) Time deposits are repayable on demand and include unclaimed deposits.
(D) The minimum period for a time deposit is 30 days.

Ans :

(B) A Recurring Deposit is a type of time deposit where investments are made in installments.
A Recurring Deposit (RD) is a variant of a time deposit where the customer makes regular, fixed installment payments over a specified period, earning interest. Current accounts are for

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businesses and usually don't pay interest. Time deposits are for a fixed term (minimum 7 days), and it is demand deposits that are payable on demand.

May/June 2011

50. Assertion (A): A bank is not liable for loss of contents from a safe deposit locker if the loss is caused by a natural calamity like an earthquake or flood.
Reason (R): The relationship between the bank and the locker hirer is that of a lessor and lessee, and the bank is only liable for losses caused by its own negligence or shortcomings.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The Assertion is a correct statement of the bank's liability. The Reason correctly explains the legal basis for this. The bank, as a lessor, is not an insurer of the locker's contents. Its duty is to provide a secure space. Therefore, it is not held responsible for 'Acts of God' or natural calamities, but only for losses attributable to its own failures.

Oct/Nov 2025

51. Which of the following statements about plastic money are correct?
1. Debit card transactions are immediately deducted from the user's bank account.
2. A charge card allows the user to carry forward a balance by paying interest.
3. Prepaid cards are loaded with a specific amount of money before use.
4. Co-branded cards are issued solely by a retailer without any banking partner.

(A) 1 and 3 only
(B) 1, 2 and 3
(C) 2 and 4 only
(D) 1, 3 and 4

Ans :

(A) 1 and 3 only
Statement 1 is correct; debit cards facilitate direct debits. Statement 3 is also correct; prepaid cards operate on a 'pay first, use later' model. Statement 2 is incorrect; it is a credit card, not a charge card, that allows carrying forward a balance. Statement 4 is incorrect; co-branded cards are a partnership between a retailer and a card issuer/network.

May/June 2016

52. Match List-I (Type of Card) with List-II (Key Feature).

	List-I (Type of Card)		**List-II (Key Feature)**
P.	Credit Card	1.	Amount debited instantly from bank account
Q.	Debit Card	2.	Must pay the full balance monthly
R.	Charge Card	3.	Allows partial payment of the outstanding balance
S.	Prepaid Card	4.	Loaded with funds in advance of use.

(A) P-3, Q-1, R-2, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-1, R-3, S-2

Ans :

(A) P-3, Q-1, R-2, S-4
The correct matching is based on the defining feature of each card type. A Credit Card (P) allows partial payment (3). A Debit Card (Q) deducts money instantly from a bank account (1). A Charge Card (R) requires the full balance to be paid monthly (2). A Prepaid Card (S) is loaded with funds before it can be used (4).

Oct/Nov 2014

53. Consider the following ancillary services offered by a bank:
1. Selling third-party mutual funds.
2. Offering safe custody for documents.
3. Providing executorship services for a will.
4. Issuing a credit card.

Which of these services establish a relationship other than Debtor-Creditor or Creditor-Debtor?
(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2 and 3 only
(D) 1, 2, 3 and 4

Ans :

(C) 1, 2 and 3 only

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Selling mutual funds makes the bank an agent. Safe custody establishes a bailee-bailor relationship. Executorship makes the bank an executor. Issuing a credit card, however, is a form of lending, which establishes a creditor-debtor relationship once the card is used. Therefore, the first three services create relationships distinct from the primary lending/deposit roles.

May/June 2019

54. Which of the following is NOT a valid reason for the termination of an agency relationship between a bank and its customer?

(A) The customer becomes of unsound mind (lunacy).
(B) The customer's account balance falls below the minimum required.
(C) The customer is declared insolvent.
(D) The specific task, like collecting a cheque, is completed.

Ans :

(B) The customer's account balance falls below the minimum required.

The agency relationship terminates upon the principal's (customer's) death, lunacy, or insolvency, or upon completion of the assigned task. A low account balance might lead to charges or a change in account status, but it does not automatically terminate the contract of agency for services like standing instructions, unless specified in the terms and conditions.

Oct/Nov 2006

55. "For the purpose of KYC requirements, a 'Customer' is defined as:

1. A person or entity that maintains an account and/or has a business relationship with the bank...
2. One on whose behalf the account is maintained... (i.e. the beneficial owner).
3. Beneficiaries of transactions conducted by professional intermediaries...
4. Any person or entity connected with a financial transaction which can pose significant... risk to the bank..."

Based on this definition, who among the following would NOT be considered a 'customer'?

(A) A person opening a savings account.
(B) The minor son in whose name a parent operates an account.
(C) A non-account holder purchasing a high-value demand draft.
(D) A person walking into a bank to inquire about loan interest rates.

Ans :

(D) A person walking into a bank to inquire about loan interest rates.

The KYC definition of a customer requires a transaction or a relationship. Opening an account, being a beneficial owner, or conducting a significant financial transaction like a high-value draft all fit the definition. Simply inquiring about products or rates without conducting a transaction or establishing a relationship does not make one a customer under this definition.

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May/June 2021

56. What is the fundamental purpose of banks offering third-party products like insurance and mutual funds?

(A) To provide one-stop financial services to customers and generate additional fee-based revenue.
(B) To comply with a mandatory regulatory requirement imposed by the central government.
(C) To completely replace the bank's core business of accepting deposits and granting loans.
(D) To significantly reduce the operational costs associated with traditional branch banking.

Ans :

(A) To provide one-stop financial services to customers and generate additional fee-based revenue.

The sale of third-party products is a strategic move by banks to enhance customer convenience by offering a wide range of financial services under one roof. This strategy helps in deepening customer relationships and also serves as an important, additional source of non-interest (fee-based) income for the bank, thus augmenting its overall revenue earnings.

Oct/Nov 2016

57. A bank facilitates the sale of a life insurance policy to its customer and earns a commission from the insurance company. In this specific transaction, what is the bank's primary role?

(A) Underwriter
(B) Insurer
(C) Corporate Agent or Broker
(D) Policyholder

Ans :

(C) Corporate Agent or Broker

When a bank sells insurance policies of another company, it does not become the insurer or underwrite the risk itself. Instead, it acts as an intermediary, specifically as a corporate agent or broker, for the insurance company. Its role is to distribute the product to its customer base in exchange for commission income, a classic example of a third-party product sale.

May/June 2025

58. Consider the following statements about lease financing from the lessee's perspective:

1. It reduces the need for upfront capital investment.
2. Lease rentals are treated as a business revenue expense, reducing taxable profit.
3. The lessee becomes the legal owner of the asset at the end of the lease term.

Which of the statements are advantages for the lessee?

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(A) 1 and 2 only

Statement 1 is a key advantage as it preserves capital. Statement 2 is also an advantage, as treating rentals as a revenue expense provides a tax shield. However, statement 3 is incorrect. In a standard lease, the lessee does not become the owner; ownership remains with the lessor. This lack of ownership is a primary characteristic and a disadvantage.

Oct/Nov 2019

59. Which statement accurately describes the law of limitation in the context of a bank deposit?

(A) The limitation period starts from the date the deposit is made.
(B) The limitation period is not applicable to bank deposits.
(C) The limitation period starts automatically on the date of maturity for a fixed deposit.
(D) The limitation period does not begin to run until the customer makes a formal demand for repayment.

Ans :

(D) The limitation period does not begin to run until the customer makes a formal demand for repayment.

A unique feature of the banker-customer (debtor-creditor) relationship is that the debt is only payable on demand. Therefore, the legal period of limitation for filing a recovery suit does not commence from the date of deposit or maturity. It begins only from the date when the customer makes a demand for the money and the bank refuses or fails to pay.

May/June 2009

60. A customer has a savings account and a flexi-deposit facility linked to it. The threshold for the auto-sweep is set at ₹50,000. The current balance is ₹75,000. What action will the bank's system most likely take?

(A) It will move ₹75,000 to a fixed deposit to maximize interest.
(B) It will move ₹25,000 from the savings account to a linked fixed deposit.
(C) It will request the customer to withdraw the excess ₹25,000.
(D) It will convert the entire savings account into a fixed deposit account.

Ans :

(B) It will move ₹25,000 from the savings account to a linked fixed deposit.

A flexi or hybrid deposit works by automatically transferring funds above a pre-set threshold from a savings/current account to a higher-interest fixed deposit. In this case, the balance of ₹75,000 is ₹25,000 above the threshold of ₹50,000. Therefore, the system will 'sweep' this surplus amount of ₹25,000 into a linked fixed deposit to earn better returns.

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CHAPTER 2
AML-KYC Guidelines

Oct/Nov 2012

1. According to the principles of Anti-Money Laundering, what is the primary characteristic of Money Laundering (ML)?

(A) The process of generating funds through legitimate business activities and then diverting them to criminal enterprises.

(B) The process of concealing the origin of funds generated from criminal activities by infusing them into the financial system to appear legitimate.

(C) The transparent investment of legally earned money into various financial instruments, such as stocks and bonds, to maximize returns.

(D) The act of financing terrorist organizations through a network of shell companies and informal fund transfer systems.

Ans :

(B) The process of concealing the origin of funds generated from criminal activities by infusing them into the financial system to appear legitimate.

Money laundering is fundamentally a process of disguise. It involves taking proceeds from criminal acts, such as drug trafficking or corruption, and channeling them through the financial system in a way that conceals their illicit origins. The ultimate goal is to make these "dirty" funds appear as if they originated from a legitimate source, allowing them to be used freely.

May/June 2005

2. Which global organization was established to evolve measures for the prevention of money laundering and issues standards known as the FATF Standards 2012?

(A) Financial Action Task Force (FATF)

(B) United Nations Security Council (UNSC)

(C) Financial Intelligence Unit-India (FIU-Ind)

(D) Enforcement Directorate (ED)

Ans :

(A) Financial Action Task Force (FATF)

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The Financial Action Task Force (FATF) is the global inter-governmental body responsible for setting international standards to combat money laundering and terrorist financing. It developed the FATF Recommendations, which are recognized as the global AML/CFT standard. The FATF monitors countries' progress in implementing these recommendations and identifies jurisdictions with strategic deficiencies, promoting effective implementation of these measures globally.

Oct/Nov 2025

3. In the three-stage cycle of money laundering, which stage involves introducing illicit funds into the financial system, often through deposits into multiple bank accounts?

(A) Integration

(B) Layering

(C) Placement

(D) Obfuscation

Ans :

(C) Placement

Placement is the initial and most vulnerable stage of the money laundering cycle. During this phase, the launderer introduces the illegal profits into the financial system. This is typically achieved by breaking up large amounts of cash into smaller, less conspicuous sums that are then deposited into one or more bank accounts, physically moving cash across borders, or purchasing assets.

May/June 2020

4. What is the primary purpose of the 'Layering' stage in the money laundering process?

(A) To invest the now-clean funds into legitimate businesses or assets like real estate, making them appear as normal profit.

(B) To introduce the initial cash proceeds of a crime, such as from drug sales, directly into the banking system through small deposits.

(C) To collect funds from various sympathizers or through criminal activities for a specific illegal purpose, such as a terrorist attack.

(D) To create complex layers of financial transactions, like wire transfers between multiple countries, to obscure the audit trail and hide the source of funds.

Ans :

(D) To create complex layers of financial transactions, like wire transfers between multiple countries, to obscure the audit trail and hide the source of funds.
The layering stage follows placement and is designed to create confusion and complicate the tracing of illicit funds. Launderers achieve this by conducting a series of conversions or movements of the funds through numerous financial transactions, such as wire transfers between different accounts in different names and countries. This complex web of transactions effectively severs the link to the original crime.

Oct/Nov 2014

5. The final stage of money laundering where laundered funds are collected from multiple accounts and used to acquire legitimate assets or invest in legal businesses is known as:
(A) Placement
(B) Layering
(C) Integration
(D) Structuring

Ans :

(C) Integration
Integration is the concluding stage where the laundered money is returned to the criminal from what appear to be legitimate sources. The funds, having been successfully placed and layered, are now integrated back into the legitimate economy. This is done through investments in real estate, luxury assets, or business ventures, making the funds appear as normal business earnings or profits.

May/June 2011

6. Which stage of Financing of Terrorism (FT) involves terrorist organisations sourcing funds from sympathisers or engaging in income-generating activities in a clandestine manner?
(A) Moving
(B) Raising
(C) Storing
(D) Using

Ans :

(B) Raising
The financing of terrorism cycle begins with the 'Raising' stage. During this phase, terrorist organizations acquire funds from various sources. This can include direct donations from individual or organizational sympathizers, as well as proceeds from both legal and illegal activities, such as running businesses or engaging in criminal enterprises. The collection is done covertly to hide the ultimate purpose.

Oct/Nov 2006

7. Which of the following is NOT a recognized stage in the financing of terrorism cycle?
(A) Raising funds from sympathisers, through donations, or from criminal activities like extortion.
(B) Moving funds to the locations of the terrorist establishments, often using couriers or informal value transfer systems.
(C) Storing funds in bank accounts, prepaid cards, or other financial investments for future operational use.
(D) Layering funds through complex transactions to hide their origin.

Ans :

(D) Layering funds through complex transactions to hide their origin.
While layering is a key stage in money laundering, the described stages of financing of terrorism are Raising, Moving, Storing, and Using. The primary focus in terrorism financing is on making funds available for terrorist acts, not necessarily on concealing the illicit origin of the funds, although some concealment methods may be used during the moving and storing phases.

May/June 2017

8. Identify the stage of financing of terrorism where funds are parked in interim bank accounts or other financial investments before being deployed for terrorist activities.
(A) Storing
(B) Raising
(C) Moving
(D) Using

Ans :

(A) Storing
The 'Storing' stage involves holding the collected funds for a period before they are needed for operational purposes. Terrorist organizations

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may park these funds in bank accounts, other financial instruments, or convert them into assets. This stage allows them to manage their finances and deploy resources strategically over time for various activities, including both operational acts and organizational maintenance.

Oct/Nov 2019

9. Which of the following is considered a main objective of the measures for the prevention of money laundering?

(A) To ensure all bank loans are properly collateralized, thereby preventing them from becoming Non-Performing Assets (NPAs).

(B) To increase the profitability of banks by closely monitoring high-value transactions and charging additional fees for them.

(C) To safeguard the economy from financial crimes and prevent criminal or terrorist groups from accessing financial resources.

(D) To simplify the account opening process for all customers by reducing documentation, regardless of their individual risk profile.

Ans :

(C) To safeguard the economy from financial crimes and prevent criminal or terrorist groups from accessing financial resources.

The objectives of anti-money laundering measures are broad and focus on protecting the integrity of the financial system and society. Key goals include preventing criminals from using the financial system for illicit purposes, stopping the spread of criminal activities, safeguarding the economy, and crucially, cutting off the financial lifeline for terrorist organizations by denying them access to funds.

May/June 2024

10. In India's AML framework, which body is designated as the investigation and prosecuting authority for money laundering crimes, with powers to track and attach assets?

(A) Enforcement Directorate (ED)

(B) Financial Intelligence Unit-India (FIU-Ind)

(C) Reserve Bank of India (RBI)

(D) Special Courts under PMLA

Ans :

(A) Enforcement Directorate (ED)

The Enforcement Directorate (ED) is the primary law enforcement and economic intelligence agency responsible for enforcing economic laws in India. Under the Prevention of Money Laundering Act (PMLA), the ED is the designated authority for investigating and prosecuting money laundering offences. Its powers include tracking, attaching, and confiscating assets believed to be proceeds of crime.

Oct/Nov 2008

11. Which institution in India's AML framework is primarily responsible for receiving, analyzing, and disseminating information related to suspicious financial transactions to law enforcement agencies?

(A) Enforcement Directorate (ED), the primary agency for investigating and prosecuting money laundering offences.

(B) A designated Special Court, which is responsible for the trial of offences punishable under the PMLA.

(C) The respective regulator of the business activity (e.g., RBI), which issues operational guidelines for compliance.

(D) Financial Intelligence Unit-India (FIU-Ind), the central agency for receiving, analyzing, and disseminating suspicious transaction information.

Ans :

(D) Financial Intelligence Unit-India (FIU-Ind), the central agency for receiving, analyzing, and disseminating suspicious transaction information.

The Financial Intelligence Unit-India (FIU-Ind) serves as the central national agency for handling information related to suspect financial transactions. It receives various prescribed transaction reports from reporting entities, analyzes them, and disseminates valuable financial intelligence to law enforcement and other intelligence agencies to combat money laundering and terrorism financing. It also has supervisory powers over PMLA-subject entities.

May/June 2009

12. Assertion (A): The Regulators of various business activities, such as the RBI for banks, issue operating instructions and guidelines for discharging obligations under the PMLA and PMLR.

Reason (R): The Enforcement Directorate (ED) is solely responsible for issuing all operational guidelines to all reporting entities.

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(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
Assertion (A) is correct; sectoral regulators like RBI, SEBI, and IRDAI issue specific guidelines to the entities they regulate to ensure compliance with PMLA/PMLR obligations. Reason (R) is false because while the ED investigates and prosecutes, it is the respective regulators that provide the operational instructions to their regulated entities, not the ED.

Oct/Nov 2022

13. As per Section 3 of the Prevention of Money Laundering Act, 2002 (PMLA), a person is guilty of the offence of money laundering if they are involved in which of the following activities connected with proceeds of crime?
(A) Only the direct acquisition and subsequent use of the property derived from a scheduled offence.
(B) Only the final act of projecting or claiming the criminal property as untainted property in the economy.
(C) Any involvement in a process connected with proceeds of crime, such as concealment, use, or claiming it as untainted.
(D) Only the initial concealment or possession of the property immediately after the crime is committed.

Ans :

(C) Any involvement in a process connected with proceeds of crime, such as concealment, use, or claiming it as untainted.
Section 3 of the PMLA defines the offence of money laundering very broadly. It covers anyone who directly or indirectly attempts to indulge, knowingly assists, or is knowingly a party or is actually involved in any process or activity connected with the proceeds of crime. This includes concealment, possession, acquisition, use, and projecting it as untainted property.

May/June 2015

14. What is the standard punishment for a money laundering offence as stipulated under Section 4 of the PMLA, 2002?
(A) Rigorous imprisonment for not less than 1 year but up to 3 years and a fine.
(B) Simple imprisonment for up to 5 years, with or without a fine.
(C) Rigorous imprisonment for up to 10 years and a mandatory fine.
(D) Rigorous imprisonment for not less than 3 years but up to 7 years and a fine.

Ans :

(D) Rigorous imprisonment for not less than 3 years but up to 7 years and a fine.
Section 4 of the PMLA specifies the punishment for the offence of money laundering. It prescribes rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years, along with a fine. This highlights the seriousness with which the law treats this financial crime.

Oct/Nov 2010

15. For money laundering cases connected with offences under the Narcotics Drugs and Psychotropic Substances Act, the maximum term of imprisonment under PMLA can be extended up to:
(A) 10 years
(B) 7 years
(C) 5 years
(D) 12 years

Ans :

(A) 10 years
While the standard punishment for money laundering under PMLA extends up to 7 years of rigorous imprisonment, the act provides for a more severe penalty for offences linked to the narcotics trade. In cases connected with offences under the Narcotics Drugs and Psychotropic Substances Act, the maximum term of imprisonment can be extended up to 10 years.

May/June 2021

16. Section 45 of the PMLA stipulates that all offences under the Act are deemed to be:
(A) Non-cognizable and bailable
(B) Cognizable and non-bailable
(C) Cognizable and bailable
(D) Non-cognizable and non-bailable

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Ans :

(B) Cognizable and non-bailable

Section 45 of the PMLA classifies offences under the act as cognizable and non-bailable. 'Cognizable' means that a police officer can make an arrest without a warrant, and 'non-bailable' means that the grant of bail is not a matter of right but is at the discretion of the court, which is subject to stringent conditions.

Oct/Nov 2013

17. Based on the provided text, which of the following is identified as the primary source of money laundering and terrorist financing (ML/FT) risks for a bank?

"Thus the primary source of ML/FT risks is the customers. These are also affected by:

i. Nature of products and services
ii. Country of incorporation of the bank
iii. Place of the bank branch
iv. Place(s) with which the transaction is connected.
v. Nature and value of transaction"

(A) The nature and value of the transaction.
(B) The customers of the bank.
(C) The bank's products and services.
(D) The geographical location of the bank branch.

Ans :

(B) The customers of the bank.

The provided text explicitly states that "the primary source of ML/FT risks is the customers." While other factors like the nature of products, services, transaction value, and geography also affect the overall risk profile, the customer themselves, their identity, profile, and purpose are identified as the principal origin of the risk that banks need to manage and mitigate.

May/June 2007

18. Which of the following is NOT one of the required measures for banks to mitigate Money Laundering (ML) and Terrorist Financing (FT) risks under PMLA?

(A) To guarantee that all loans granted will not become Non-Performing Assets.
(B) To know and understand the customers and their financial dealings better.
(C) To detect and report suspicious activities to FIU-Ind as per laid down procedures.
(D) To adequately train the staff in KYC/AML procedures.

Ans :

(A) To guarantee that all loans granted will not become Non-Performing Assets.

The core measures to mitigate ML/FT risks include understanding customers (KYC), detecting and reporting suspicious activities, complying with all applicable laws, and ensuring staff are well-trained in AML procedures. Guaranteeing loan performance is a matter of credit risk management, not a direct measure for mitigating money laundering or terrorist financing risks as outlined under PMLA obligations.

Oct/Nov 2024

19. Prior to the introduction of KYC guidelines by the RBI in 2002, what was the common banking practice for opening a new account?

(A) Requiring a mandatory Aadhaar e-KYC authentication for all new individual customers.
(B) Conducting a video-based customer identification process (V-CIP) for all new remote accounts.
(C) Obtaining an introduction from an existing account holder of good standing or a known staff member.
(D) Relying solely on the self-declaration of identity and address provided by the customer without verification.

Ans :

(C) Obtaining an introduction from an existing account holder of good standing or a known staff member.

Before the formal KYC guidelines were mandated in 2002, the prevailing practice in banking was to rely on a system of 'introduction'. A new customer needed to be introduced by an existing customer whose account was in good standing or by a bank staff member who knew the person. This practice is now advised against.

May/June 2018

20. How does the definition of a 'customer' from a KYC norms perspective differ from the traditional meaning?

(A) It is limited only to individuals and entities who hold a savings or current account with the bank.
(B) It excludes the beneficial owners of an entity and focuses only on the legal person or entity itself.

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(C) It is restricted to persons who have a credit relationship with the bank, such as borrowers or guarantors.
(D) It includes not only account holders but also those who use a service like remittance on a one-off basis.

Ans :

(D) It includes not only account holders but also those who use a service like remittance on a one-off basis.
The KYC definition of a 'customer' is significantly broader than the traditional view. It is not limited to those with ongoing account relationships. It also covers individuals and entities who use the bank's services even once, such as for a remittance facility, as well as those acting on behalf of another person and beneficial owners of legal entities.

Oct/Nov 2016

21. A foreign tourist visits a bank branch in India to exchange USD 500 into Indian Rupees. The tourist does not have an account with the bank. According to the 'Customer' definition under KYC norms, how should the bank treat this individual?
(A) As a non-customer, since the transaction is a one-time event and no permanent account is being opened.
(B) As a 'prospect', and no KYC is needed as the transaction amount is below the reporting threshold.
(C) As a 'customer', because they are availing a financial service like currency exchange on a stand-alone basis.
(D) As a 'correspondent', since the transaction involves a foreign currency and a non-resident individual.

Ans :

(C) As a 'customer', because they are availing a financial service like currency exchange on a stand-alone basis.
Under the expanded definition of 'customer' for KYC purposes, the relationship is not limited to account holders. Any person who avails a bank's service, even on a one-off basis like a remittance or foreign exchange transaction, is considered a customer. Therefore, the bank must apply appropriate KYC procedures to this tourist for this transaction.

May/June 2013

22. Which of the following is NOT one of the four key elements of a bank's Know Your Customer (KYC) Policy?
(A) Customer Acceptance Policy
(B) Product Profitability Analysis
(C) Customer Identification Procedures
(D) Monitoring of Transactions

Ans :

(B) Product Profitability Analysis
A bank's KYC Policy is a comprehensive document focused on mitigating ML/TF risks. Its four key elements are: Customer Acceptance Policy (defining who can be a customer), Customer Identification Procedures (verifying identity), Risk Management (categorizing customers by risk), and Monitoring of Transactions (detecting unusual activity). Product Profitability Analysis is a business function, not a core element of the KYC policy.

Oct/Nov 2005

23. A bank's KYC Policy must be reviewed regularly. What is the minimum frequency for this review?
(A) At least once every three years.
(B) At least once every two years.
(C) Only when there is a major change in PMLA regulations.
(D) At least once a year.

Ans :

(D) At least once a year.
To remain effective and relevant, a bank's KYC Policy must be a dynamic document. It is required to be reviewed regularly, with a minimum frequency of at least once a year. In addition to the annual review, it should also be updated whenever there are significant events like changes in regulations, new business lines, or new jurisdictions.

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May/June 2025

24. Match List-I (Functionary) with List-II (Role in an RE that is a company).
List-I
P. Designated Director
Q. Principal Officer
R. Internal Auditor
S. Board of Directors
List-II
1. A senior officer responsible for reporting to FIU-Ind.

2. The Managing Director or a whole-time Director responsible for overall PMLA compliance.
3. Approves the KYC Policy.
4. Conducts independent evaluation of KYC/ AML compliance.

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-4, S-2

Ans :

(A) P-2, Q-1, R-4, S-3
The Designated Director in a company is the MD or whole-time Director, responsible for overall compliance (P-2). The Principal Officer is the senior officer tasked with monitoring and reporting (Q-1). The Internal Auditor independently evaluates compliance (R-4). The Board of Directors holds the ultimate responsibility for approving the KYC policy (S-3).

Oct/Nov 2011

25. Who is responsible for the overall compliance with the obligations of the bank under the PMLA and is designated as the 'Designated Director' in the case of a partnership firm?
(A) The Managing Director
(B) A senior officer of the firm
(C) The Managing Partner
(D) The Proprietor

Ans :

(C) The Managing Partner
The PMLR specifies who shall be the Designated Director (DD) based on the legal structure of the Reporting Entity (RE). For a company, it is the Managing Director or a whole-time Director. For a partnership firm, the responsibility of the DD falls upon the Managing Partner, who is accountable for the firm's overall PMLA compliance.

May/June 2010

26. Which of the following is a primary function of a bank's Principal Officer (PO)?
(A) Monitoring the implementation of the KYC/AML Policy and reporting prescribed transactions to FIU-Ind.
(B) Approving the bank's annual budget and presenting the financial statements to the board.
(C) Directly managing the bank's credit risk by underwriting and sanctioning the loan portfolio.
(D) Acting as the Managing Director for ensuring overall compliance with all statutory and regulatory requirements.

Ans :

(A) Monitoring the implementation of the KYC/ AML Policy and reporting prescribed transactions to FIU-Ind.
The Principal Officer is a senior officer who acts as the central point of contact for AML compliance. Key functions include monitoring the effective implementation of the KYC/AML policy across the bank, ensuring timely reporting of prescribed transactions (like STRs and CTRs) to FIU-Ind, and maintaining liaison with law enforcement agencies on AML matters.

Oct/Nov 2020

27. The AML Team within a bank is responsible for which of the following tasks?
(A) Sanctioning high-value corporate loans and managing client relationships.
(B) Marketing new third-party products like insurance and mutual fund units to customers.
(C) Conducting daily cash management and vault balancing operations at the branch level.
(D) Undertaking the ML/TF risk assessment of the bank and reviewing it periodically.

Ans :

(D) Undertaking the ML/TF risk assessment of the bank and reviewing it periodically.
The AML Team is a specialized functional unit focused on compliance. Its responsibilities include guiding business units on due diligence, monitoring transactions for suspicious activity, submitting reports to FIU-India, and crucially, undertaking the bank-wide ML/TF risk assessment. This assessment helps the bank to understand and manage its overall risk exposure and is reviewed periodically.

May/June 2014

28. According to PMLA obligations, for how long must a bank maintain the records of identity documents of a client after the business relationship has ended or the account has been closed?

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(A) For a period of 3 years from the date of closure, as per standard document retention policies.
(B) For a period of 5 years from the date of closure of the account or end of relationship, whichever is later.
(C) For a period of 5 years from the date of the final transaction, regardless of account status.
(D) For a period of 10 years from the date of closure, to align with international best practices.

Ans :

(B) For a period of 5 years from the date of closure of the account or end of relationship, whichever is later.
PMLA specifies distinct retention periods for different records. While transaction records are kept for 5 years from the transaction date, records of identity documents, account files, and business correspondence must be maintained for a longer effective period. They must be kept for 5 years after the business relationship with the client ends or the account is closed.

Oct/Nov 2015

29. What action is a bank required to take if it is unable to carry out the necessary due diligence measures, such as verifying a client's identity or examining the source of funds, for a specified transaction?
(A) Proceed with the transaction but flag it for internal review later.
(B) Carry out the transaction but charge a higher fee for the increased risk.
(C) Not to carry out the transaction.
(D) Report the client to the local police station immediately.

Ans :

(C) Not to carry out the transaction.
A primary obligation under PMLA is that a bank must perform satisfactory due diligence before commencing specified transactions. If the bank is unable to take the required measures, such as verifying identity or understanding the purpose and source of funds, it is obligated not to proceed with that transaction. This acts as a critical control point.

May/June 2012

30. Consider the following statements regarding a bank's obligations under PMLA:
1. Maintain records of all transactions for a period of 5 years from the date of the transaction.
2. Maintain records of identity documents for 5 years from the date the account was opened.
3. Keep all information maintained and furnished about customers strictly confidential.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(C) 1 and 3 only
Statement 1 is correct; transaction records must be kept for 5 years from the transaction date. Statement 3 is also correct as customer confidentiality is a key obligation. However, Statement 2 is incorrect. Records of identity documents must be maintained for 5 years from the date of account closure or end of relationship, not from the opening date.

Oct/Nov 2007

31. The approach where banks adopt customer due diligence and transaction monitoring measures depending on the risk levels posed by customers is known as:
(A) The Risk-Based Approach (RBA)
(B) The Rule-Based Approach (RBA)
(C) The Customer-First Approach (CFA)
(D) The Compliance-Only Approach (COA)

Ans :

(A) The Risk-Based Approach (RBA)
The Risk-Based Approach (RBA) is a core principle of modern AML/CFT frameworks. It allows banks to allocate their compliance resources more effectively by applying enhanced due diligence and monitoring for high-risk customers, products, or geographies, while applying simplified measures for those assessed as low-risk. This ensures that the greatest risks receive the greatest attention.

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May/June 2023

32. How frequently should a bank undertake a comprehensive assessment of its ML/TF risks arising from customers, products, services, and geographical locations?
(A) At least once every two years.
(B) At least annually.
(C) At least every six months.
(D) Only when instructed by the RBI.

Ans :

(B) At least annually.
To effectively manage ML/TF risks, banks are required to undertake a formal risk assessment exercise to identify and measure their exposure. This assessment must be proportionate to the bank's nature and size and should be conducted at least annually. This regular review ensures the bank's controls remain aligned with its evolving risk profile and business activities.

Oct/Nov 2017

33. Which of the following customer categories would typically be classified as 'low risk' in customer risk categorisation?
(A) Customers engaged in cash-intensive businesses like jewellery stores, real estate agents, or petrol pumps.
(B) Salaried individuals (other than HNIs) whose identities and sources of wealth are easily identifiable and verifiable.
(C) Politically Exposed Persons (PEPs) and their close relatives or associates, regardless of their location.
(D) Non-resident customers or entities based in jurisdictions identified by FATF as having weak AML/CFT regimes.

Ans :

(B) Salaried individuals (other than HNIs) whose identities and sources of wealth are easily identifiable and verifiable.
Low-risk customers are those whose identity and source of funds are transparent and whose transaction patterns are predictable and in line with their known profile. Salaried employees or individuals with a clear and verifiable source of wealth generally fall into this category. In contrast, cash-intensive businesses, PEPs, and customers from high-risk jurisdictions pose a higher risk.

May/June 2006

34. A bank categorises a customer who runs a large jewellery business as 'high risk'. The customer's account shows a sudden and significant drop in the volume of cash deposits over a three-month period, which is contrary to their established business pattern. What action should the bank consider?
(A) Review the customer's risk category as a significant change in the conduct of business has been noticed.
(B) Immediately close the account and file a suspicious transaction report, as the activity is unusual.
(C) Downgrade the customer's risk category to 'low risk' because the volume of cash transactions has decreased.
(D) Ignore the change in transaction pattern, as a decrease in cash deposits lowers the bank's overall ML risk.

Ans :

(A) Review the customer's risk category as a significant change in the conduct of business has been noticed.
A customer's risk category is not static. It must be reviewed whenever any additional information comes to light or a change in the conduct of business is noticed. A sudden, unexplained deviation from the known profile, even if it involves a reduction in a high-risk indicator like cash, warrants a review to understand the reason behind the change.

Oct/Nov 2009

35. What is the minimum frequency for the review of a customer's risk categorisation based on the transactions carried out by the customer?
(A) At least every two years
(B) At least every year
(C) At least every six months
(D) At least every quarter

Ans :

(C) At least every six months
To ensure that customer risk profiles remain accurate and up-to-date, banks are required to conduct a periodic review of their risk categorisation. This review, based on the customer's actual transaction history, must be carried out at a minimum frequency of every six months. This helps in identifying any changes in

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transaction patterns that might necessitate a re-categorisation.

May/June 2016

36. Which function within a bank is responsible for undertaking an independent evaluation of compliance with the KYC/AML Policy and placing its findings before the Audit Committee of the Board?

(A) The AML Team, which is responsible for day-to-day transaction monitoring and reporting.
(B) The Principal Officer, who serves as the central point of contact with regulatory authorities.
(C) The Designated Director, who has the ultimate responsibility for the bank's PMLA compliance.
(D) The bank's internal audit team, which performs an independent evaluation of policy compliance.

Ans :

(D) The bank's internal audit team, which performs an independent evaluation of policy compliance.

The internal audit function plays a crucial oversight role in the AML framework. It is responsible for conducting an independent evaluation of the bank's adherence to its own KYC/AML policies and procedures, as well as legal and regulatory requirements. Its findings are then reported to the Audit Committee of the Board, ensuring top-level oversight.

Oct/Nov 2021

37. When introducing new technology-based products like Mobile Wallets or Net Banking, what is a key obligation for banks regarding KYC procedures?

(A) To waive all KYC procedures for a promotional period to encourage rapid user adoption.
(B) To apply the same KYC procedures that are used for traditional passbook-based savings accounts.
(C) To assess the specific ML/TF risks and build in appropriate KYC procedures before product launch.
(D) To outsource the entire KYC process to the third-party technology vendor providing the platform.

Ans :

(C) To assess the specific ML/TF risks and build in appropriate KYC procedures before product launch.

New technologies and delivery channels can introduce new and different ML/FT risks. Therefore, banks cannot simply ignore KYC or apply outdated methods. They have an obligation to analyze the risks associated with new technology-based products like mobile wallets, net banking, or IMPS and build in appropriate and effective KYC procedures before their launch.

May/June 2022

38. Why are bank staff considered to be of potentially high inherent risk in the context of AML/CFT?

(A) Because they are responsible for achieving business targets, which may create conflicts of interest.
(B) Due to their privileged access to bank systems, their role in transactions, and the powers they exercise.
(C) Because they are required to interact directly with a large and diverse number of customers on a daily basis.
(D) Due to the high possibility of them making unintentional clerical errors in processing financial transactions.

Ans :

(B) Due to their privileged access to bank systems, their role in transactions, and the powers they exercise.

Bank staff hold a position of trust and have access to sensitive systems and customer information. This access, combined with their authority to execute transactions and make decisions, creates an inherent risk. A compromised or complicit staff member can facilitate money laundering or bypass internal controls, making staff screening and training critical components of risk management.

Oct/Nov 2018

39. Banks are not permitted to open or maintain accounts for individuals or entities appearing on the "1988 Sanctions List" circulated by the UNSC. This list consists of individuals and entities associated with:

(A) Al-Qaida
(B) ISIL (Da'esh)
(C) Global cybercrime syndicates
(D) The Taliban

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Ans :

(D) The Taliban

As part of their obligations under international agreements, banks in India must comply with sanctions lists circulated by the United Nations Security Council (UNSC). The "1988 Sanctions List" specifically targets individuals and entities that are associated with the Taliban. Banks must ensure they do not provide financial services to anyone named on this list.

May/June 2008

40. If a bank finds a match between one of its accounts and an individual listed on a UNSC sanctions list, what is the immediate reporting action required?

(A) To promptly advise FIU-IND and the Ministry of Home Affairs with the full details of such an account.

(B) To immediately close the account and attempt to return the funds to the designated account holder.

(C) To only freeze the account and await further instructions or clarification directly from the customer.

(D) To report the matter only to the bank's internal audit department for a secondary verification process.

Ans :

(A) To promptly advise FIU-IND and the Ministry of Home Affairs with the full details of such an account.

Upon identifying an account holder who matches a name on a UNSC sanctions list, the bank must take specific actions. The required procedure includes immediately advising both the Financial Intelligence Unit-India (FIU-IND) and the Ministry of Home Affairs (MHA) with the details of the account, as per the UAPA notification dated 2nd February 2021.

Oct/Nov 2023

41. When dealing with transactions involving persons from jurisdictions identified by the FATF as having AML/CFT deficiencies, what is the required measure for banks?

(A) Prohibit all trade and business transactions with persons from these countries without any exception.

(B) Automatically report every single transaction, regardless of its value or nature, as suspicious to FIU-Ind.

(C) Give special attention to the relationship and examine the background and purpose of all transactions.

(D) Apply simplified due diligence measures as these transactions are already under international scrutiny by FATF.

Ans :

(C) Give special attention to the relationship and examine the background and purpose of all transactions.

While banks are not prohibited from legitimate business with persons from FATF-identified high-risk jurisdictions, they must apply enhanced scrutiny. This involves giving special attention to these relationships, examining the background and purpose of transactions to ensure they are legitimate, and maintaining written findings that can be provided to regulators upon request.

May/June 2019

42. Based on this definition, in a correspondent banking relationship, the bank that holds the deposits and provides services is known as the:

"Correspondent banking can be defined, in general terms as an arrangement under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to those respondent banks."

(A) Correspondent bank

(B) Respondent bank

(C) Shell bank

(D) Originator bank

Ans :

(A) Correspondent bank

The provided text clearly defines the roles in a correspondent banking arrangement. The bank that provides the services, such as holding deposits and processing payments for another bank, is referred to as the 'correspondent' bank. The bank whose deposits are being held and which receives the services is known as the 'respondent' bank.

Oct/Nov 2025

43. Which of the following is an absolute prohibition for banks when establishing correspondent relationships?

(A) Establishing relationships with banks from countries that are not members of the G20 economic forum.

NODIA

(B) Establishing relationships with newly incorporated banks that have been in operation for less than 10 years.
(C) Establishing relationships with foreign banks that do not have a physical branch presence in India.
(D) Establishing or continuing a correspondent relationship with a bank known to be a shell bank.

Ans :

(D) Establishing or continuing a correspondent relationship with a bank known to be a shell bank.
AML/CFT regulations are very strict regarding shell banks, which are banks that have no physical presence in the country in which they are incorporated and licensed, and are unaffiliated with a regulated financial group. Banks are explicitly prohibited from entering into, or continuing, correspondent banking relationships with such entities due to their extremely high risk for misuse.

May/June 2007

44. What is the primary purpose of the Foreign Account Tax Compliance Act (FATCA) of the USA?
(A) To standardize the format of international cross-border wire transfers for easier global tracking.
(B) To prevent U.S. persons from using financial institutions outside the USA to evade U.S. taxation on income and assets.
(C) To create a common reporting standard exclusively for OECD member countries to combat corporate tax evasion.
(D) To fund the operations of the U.S. IRS by levying mandatory penalties on all non-U.S. financial institutions.

Ans :

(B) To prevent U.S. persons from using financial institutions outside the USA to evade U.S. taxation on income and assets.
The Foreign Account Tax Compliance Act (FATCA) is a U.S. law aimed at curbing tax evasion by U.S. citizens and residents. It requires foreign financial institutions to identify their U.S. account holders and report information about their accounts to the U.S. Internal Revenue Service (IRS) or the appropriate government authority under an Inter-Governmental Agreement (IGA).

Oct/Nov 2012

45. To comply with FATCA and CRS regimes in India, banks are required to submit prescribed reports in respect of accounts of customers taxable in the USA or other foreign countries to which authority?
(A) The U.S. Internal Revenue Service (IRS) directly.
(B) The Financial Intelligence Unit-India (FIU-IND).
(C) The Income Tax Department.
(D) The Enforcement Directorate (ED).

Ans :

(C) The Income Tax Department.
In India, the implementation of FATCA and the Common Reporting Standard (CRS) is governed by Income Tax Rules 114F, 114G, and 114H. These rules mandate that reporting financial institutions, including banks, must submit the required information on reportable accounts to the Indian Income Tax Department, which then exchanges the information with the respective foreign tax authorities.

May/June 2015

46. Based on the table, a Cross Border Wire Transfer Report (CBWTR) needs to be filed for transactions exceeding what value?
Report Table Extract:

S.No.	Report	Nature of Transactions
1.	Cross Border Wire Transfer Report (CBWTR)	Cross border wire transfers of more than ₹5 lakh or equivalent where either the origin or destination of fund is in India

(A) ₹10 lakh or equivalent
(B) ₹1 lakh or equivalent
(C) Any value, if the transaction is suspicious.
(D) ₹5 lakh or equivalent

Ans :

(D) ₹5 lakh or equivalent
The provided table extract explicitly specifies the threshold for filing a Cross Border Wire Transfer Report (CBWTR). This report is required for all cross-border wire transfers that are for an amount of more than ₹5 lakh or its equivalent in

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foreign currency, where either the originator or the beneficiary of the funds is in India.

Oct/Nov 2010

47. A Cash Transaction Report (CTR) must be filed for a series of integrally connected cash transactions in a month if the aggregate value of all deposits or all withdrawals taken separately is:
(A) ₹10 lakh or more
(B) ₹5 lakh or more
(C) More than ₹10 lakh
(D) More than ₹5 lakh

Ans :
(A) ₹10 lakh or more
The threshold for CTR reporting applies not just to single transactions but also to a series of transactions. If multiple cash deposits, when aggregated, or multiple cash withdrawals, when aggregated, within a calendar month amount to ₹10 lakh or more and appear to be connected, a CTR must be filed for that series of transactions.

May/June 2021

48. An NPO receives a single donation of ₹12 lakh into its bank account from a foreign source. Which monthly report is the bank obligated to file with FIU-IND for this transaction?
(A) Cash Transaction Report (CTR)
(B) Non-Profit Organisation Report (NTR)
(C) Cross Border Wire Transfer Report (CBWTR)
(D) Suspicious Transaction Report (STR)

Ans :

(B) Non-Profit Organisation Report (NTR)
The Non-Profit Organisation Report (NTR) is specifically designed to report all receipts by non-profit organisations of more than ₹10 lakh or its equivalent. Since the NPO received a single transaction of ₹12 lakh, which is above the threshold, the bank must file an NTR for this receipt by the 15th of the following month.

Oct/Nov 2013

49. A customer deposits cash of ₹4 lakh on the 5th of a month, ₹3 lakh on the 15th, and ₹4 lakh on the 25th of the same month. All transactions appear to be part of a single scheme. What reporting obligation is triggered for the bank?
(A) A Suspicious Transaction Report (STR) only, due to the structured nature of the deposits.
(B) One consolidated Cash Transaction Report (CTR) as the series of transactions exceeds the monthly aggregate threshold.
(C) Three separate Cash Transaction Reports (CTRs), as no single transaction reaches the ₹10 lakh threshold.
(D) No reporting is needed, as the individual deposit amounts are all below the single transaction threshold.

Ans :

(B) One consolidated Cash Transaction Report (CTR) as the series of transactions exceeds the monthly aggregate threshold.
The total cash deposited is ₹4 + ₹3 + ₹4 = ₹11 lakh. The rule for CTRs covers not only single transactions of ₹10 lakh or more but also a series of integrally connected cash transactions in a month aggregating to ₹10 lakh or more. Since the total exceeds the threshold, a single CTR covering this series must be filed.

NODIA

May/June 2017

50. Within how many days of establishing suspicion must a bank file a Suspicious Transaction Report (STR) with FIU-IND?
(A) Within 7 days
(B) Within 3 days
(C) Within 15 days
(D) Within 30 days

Ans :

(A) Within 7 days
Timeliness is critical for STRs to be effective for law enforcement. The regulations mandate that a bank must report a suspicious transaction to the Financial Intelligence Unit-India (FIU-IND) promptly. This report has to be filed within 7 days of the bank establishing a suspicion, based on its internal review and judgment.

Oct/Nov 2006

51. Consider the following grounds for considering a transaction as suspicious:
1. It may involve proceeds of an offence specified in the Schedule to PMLA.
2. It appears to be made in circumstances of unusual or unjustified complexity.
3. It appears to have no economic rationale or bonafide purpose.
4. It may involve financing of activities relating to terrorism.

Which of the above are valid grounds for filing an STR?
(A) 1 and 3 only
(B) 1, 2 and 4 only

(C) 2 and 4 only
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4
All four conditions are valid and explicitly listed as grounds for forming a suspicion. A transaction is considered suspicious if it gives rise to a reasonable doubt that it could be related to money laundering, has unusual complexity, lacks economic sense, or might be linked to terrorism financing. Any one of these is sufficient to trigger suspicion.

May/June 2024

52. Which of the following transactions is also reportable under a Suspicious Transaction Report (STR)?
(A) A high-value salary credit into a corporate CEO's account from their known employer.
(B) A regular, large cash deposit by a known petrol pump owner consistent with their business.
(C) A large RTGS transfer between two well-known corporate entities for a documented trade deal.
(D) An attempted transaction where a customer aborts it upon being asked for required documents.

Ans :

(D) An attempted transaction where a customer aborts it upon being asked for required documents.
The scope of STRs is not limited to completed monetary transactions. It also includes non-monetary operations (like unusual locker access) and attempted transactions. A customer who aborts a transaction, especially when asked for identification or information, can be a significant red flag and is considered a reportable event under the STR framework.

Oct/Nov 2008

53. Based on this, what is the range of monetary penalty that the Director, FIU-IND can impose for a single violation of PMLA obligations?
"PMLA has empowered the Director, FIU to take any of the following punitive measures... (iii) Impose monetary penalty with a minimum of ₹10,000/- to maximum of ₹1 lakh per violation."
(A) Minimum ₹1,000 to maximum ₹10,000
(B) Minimum ₹50,000 to maximum ₹5 lakh
(C) Minimum ₹10,000 to maximum ₹1 lakh
(D) A flat penalty of ₹1 lakh

Ans :

(C) Minimum ₹10,000 to maximum ₹1 lakh
The text explicitly states the range of the monetary penalty that can be imposed by the Director of FIU-IND for non-compliance with PMLA obligations. The penalty for each violation shall not be less than ten thousand rupees but may extend to one lakh rupees, providing a clear financial consequence for such failures.

May/June 2009

54. If a bank delays the submission of a required report to FIU-IND by five days, how many violations is it considered to have committed for the purpose of levying a penalty?
(A) One single violation, as it pertains to a single delayed report.
(B) Five distinct violations, as each day of delay is counted separately.
(C) Zero violations, provided the report was eventually submitted correctly.
(D) A single warning with no monetary penalty for a first-time delay.

Ans :

(B) Five distinct violations, as each day of delay is counted separately.
The rules for non-compliance are strict regarding timeliness. For the purpose of imposing a penalty, each day of delay in the submission of required information or a report, or in the rectification of incorrect information, is reckoned as a separate and distinct violation. Therefore, a five-day delay would be treated as five separate violations.

Oct/Nov 2022

55. A bank is required to maintain secrecy regarding customer information. Which of the following is NOT a valid exception to this rule?
(A) Where disclosure is made with the express or implied consent of the customer.
(B) Where there is a higher duty to the public to disclose the information, such as preventing fraud.
(C) Where disclosure is under compulsion of law, such as a formal court order or statutory demand.
(D) Where disclosure is required by the marketing team for the purpose of cross-selling other financial products.

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Ans :

(D) Where disclosure is required by the marketing team for the purpose of cross-selling other financial products.
Banks have a contractual duty to maintain the secrecy of their customers' affairs. This can only be breached under specific, legally recognized exceptions. These include compulsion by law, a duty to the public, the bank's own interest, and customer consent. Using customer information for cross-selling without express permission is a violation of this secrecy obligation.

May/June 2018

56. Which of the following scenarios represents a valid exception to the banking secrecy obligation where "the interest of bank requires disclosure"?
(A) Disclosing a defaulting borrower's details to a guarantor to legally enforce the guarantee.
(B) Disclosing a customer's details to a third-party marketing agency for a promotional campaign.
(C) Publishing the names of all high-net-worth customers in the bank's public annual report.
(D) Sharing a customer's transaction history with another bank to compare and analyze business practices.

Ans :

(A) Disclosing a defaulting borrower's details to a guarantor to legally enforce the guarantee.
The exception allowing disclosure in the bank's interest is narrowly defined. It typically applies when the bank needs to take legal action to protect its own rights, such as recovering a debt. Disclosing a borrower's default to a guarantor is necessary for the bank to legally claim the amount from the guarantor, thus serving the bank's direct interest.

Oct/Nov 2016

57. Assertion (A): The offence of money laundering under PMLA is defined narrowly to include only the final act of investing criminal proceeds in a legitimate business.
Reason (R): Section 3 of PMLA covers any process or activity connected with proceeds of crime, including concealment, possession, and use.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(D) (A) is false but (R) is true.
Assertion (A) is false. The definition of the money laundering offence under PMLA is extremely broad, not narrow. Reason (R) is true, as it correctly states that Section 3 encompasses a wide range of activities connected to the proceeds of crime, from the initial concealment to the final use, making the definition comprehensive.

May/June 2013

58. Identify the incorrect pair from the following options related to the AML organisational set-up.
(A) Designated Director in a Proprietorship : Principal Officer
(B) Designated Director in a Trust : Managing Trustee
(C) Designated Director in a Company : Managing Director or whole-time Director
(D) Designated Director in a Partnership Firm : Managing Partner

Ans :

(A) Designated Director in a Proprietorship : Principal Officer
The Designated Director for a proprietorship concern is the Proprietor themselves. The Principal Officer is a separate functional role, a senior officer responsible for AML monitoring and reporting, distinct from the Designated Director who has overall compliance responsibility. The other pairs correctly identify the Designated Director for the respective entity types as per PMLR.

Oct/Nov 2005

59. Which of the following statements about reporting obligations is incorrect?
(A) The Counterfeit Currency Report (CCR) must be filed for all counterfeit currency notes received.
(B) The value of the transaction is not relevant for reporting a Suspicious Transaction Report (STR).
(C) The Cash Transaction Report (CTR) is filed for cash transactions of ₹10 lakh or more.
(D) The Non-Profit Organisation Report (NTR) is filed for all transactions in an NPO's account.

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Ans :

(D) The Non-Profit Organisation Report (NTR) is filed for all transactions in an NPO's account.
The Non-Profit Organisation Report (NTR) has a specific threshold. It is filed to report all receipts (not all transactions) by non-profit organisations of more than ₹10 lakh or its equivalent in a month. It does not cover all transactions of any value within the NPO's account, making the statement incorrect. The other statements are accurate.

May/June 2025

60. A bank's internal auditors must specifically check and verify the application of KYC/AML procedures at the branches. Where are their findings and the compliance status in this regard required to be placed?

(A) Before the Board of Directors during the bank's annual general meeting with shareholders.
(B) Before the Audit Committee of the Board at specified quarterly intervals for high-level review.
(C) Submitted directly to the Financial Intelligence Unit-India (FIU-Ind) as part of compliance.
(D) Communicated only to the Principal Officer for internal review and necessary corrective action.

Ans :

(B) Before the Audit Committee of the Board at specified quarterly intervals for high-level review.
To ensure high-level oversight and accountability, the findings of the internal audit regarding KYC/AML compliance at the branch level are not just an operational matter. These findings, along with a report on the compliance status, must be formally placed before the Audit Committee of the Board of Directors on a quarterly basis for their review.

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CHAPTER 3
Operational Aspects of KYC

Oct/Nov 2010

1. According to the RBI Master Directions on KYC, if there is a variance in KYC/AML standards between the RBI and a host country's regulators for an overseas branch of an Indian bank, which regulation must the branch adopt?

(A) The regulation prescribed by the RBI, irrespective of the host country's laws.
(B) The more stringent of the two regulations.
(C) The regulation of the host country, as local laws take precedence.
(D) The regulation that is less stringent to facilitate easier operations.

Ans :

(B) The more stringent of the two regulations.
For branches and majority-owned subsidiaries located abroad, if there is a difference between the KYC/AML standards of the RBI and the host country, the bank is required to adopt the more stringent regulation. This ensures the highest standard of compliance is maintained, mitigating risks effectively across jurisdictions and adhering to global best practices for financial integrity.

May/June 2017

2. Which of the following is an explicit requirement of a bank's Customer Acceptance Policy (CAP) to prevent money laundering and terrorist financing risks?

(A) No account is opened in an anonymous or fictitious/benami name.
(B) Accounts can be opened in fictitious names if the initial deposit is high.
(C) Customer Due Diligence is optional for low-risk customers.
(D) Transactions can be undertaken before completing the CDD procedure.

Ans :

(A) No account is opened in an anonymous or fictitious/benami name.
A fundamental tenet of the Customer Acceptance Policy is the absolute prohibition of opening accounts in anonymous, fictitious, or benami names. This measure is crucial for ensuring transparency and accountability in all banking relationships. It forms the first line of defense against the misuse of the banking system for illicit activities by establishing a clear and verifiable customer identity from the outset.

Oct/Nov 2022

3. Under the Customer Acceptance Policy, what is the mandatory procedure for all joint account holders?

(A) Customer Due Diligence (CDD) is required only for the primary account holder.
(B) Customer Due Diligence (CDD) is optional for joint account holders who are family members.
(C) Customer Due Diligence (CDD) is required for all joint account holders.
(D) Customer Due Diligence (CDD) is only required if the joint account is classified as high-risk.

Ans :

(C) Customer Due Diligence (CDD) is required for all joint account holders.
The Customer Acceptance Policy mandates that the Customer Due Diligence (CDD) procedure must be carried out for all individuals who are part of a joint account. This ensures that the identity and risk profile of every account holder are properly assessed and verified. It prevents the circumvention of KYC norms by using joint accounts to obscure the identity of one or more parties.

May/June 2005

4. In which of the following scenarios is Customer Identification Procedure (CIP) mandatory?

(A) For any domestic fund transfer by an account holder, regardless of the amount.
(B) When selling a third-party product for a value of ₹25,000.
(C) When a customer makes a cash deposit of ₹49,000 into their own account.

NODIA

(D) For a series of connected transactions for a walk-in customer valuing over ₹50,000.

Ans :

(D) For a series of connected transactions for a walk-in customer valuing over ₹50,000.
The Customer Identification Procedure is mandated for a walk-in customer who is carrying out a transaction or a series of connected transactions with a value exceeding ₹50,000. This rule is designed to monitor and identify individuals who are not account holders but are using the bank's services for significant one-off transactions, thereby mitigating potential money laundering risks.

Oct/Nov 2014

5. When does a bank need to perform Customer Identification Procedures (CIP) for an existing customer?
(A) Each time the customer requests a new cheque book.
(B) When the customer's account balance exceeds a certain internal limit.
(C) If a doubt arises about the authenticity or adequacy of previously obtained customer information.
(D) Annually for all customers, irrespective of their risk category.

Ans :

(C) If a doubt arises about the authenticity or adequacy of previously obtained customer information.
For existing customers, Customer Identification Procedures must be repeated if the bank develops any doubt regarding the authenticity, adequacy, or correctness of the information that was previously provided. This ensures that the customer's records remain accurate and reliable over time, which is essential for ongoing risk assessment and effective monitoring of their account activities as per regulatory requirements.

May/June 2021

6. The Customer Due Diligence (CDD) procedure primarily involves customer identification and what other critical activity?
(A) Obtaining the customer's credit score from a credit information company.
(B) Obtaining information about the customer's location, activity, and the purpose of using banking services.
(C) Securing a written declaration of the customer's political affiliations.
(D) Verifying the customer's educational qualifications and employment history.

Ans :

(B) Obtaining information about the customer's location, activity, and the purpose of using banking services.
Customer Due Diligence (CDD) is a comprehensive process that extends beyond mere identification. It includes obtaining and assessing information related to the customer's location, business or activity, and the intended purpose for which they plan to use the banking services. This helps the bank to build a complete customer profile and assess the potential ML/TF risks associated with the relationship.

Oct/Nov 2006

7. According to KYC norms, for which of the following individuals is Customer Due Diligence (CDD) required?
(A) A beneficiary of a will who is not an account holder.
(B) A person who only visits the bank to use the ATM.
(C) A witness for an account opening form.
(D) An authorised signatory of a legal entity customer.

Ans :

(D) An authorised signatory of a legal entity customer.
Customer Due diligence (CDD) is mandatory for individuals who are associated with a bank in specific capacities, even if they are not the primary account holder. This includes an authorised signatory of a legal entity customer, as they have the power to conduct transactions on behalf of the entity. CDD is also required for beneficial owners and power of attorney holders.

May/June 2012

8. What is a key requirement when a bank accepts a certified copy of an Officially Valid Document (OVD) from a customer?
(A) The original document must be verified, and the copy authenticated by a bank officer.
(B) The copy must be attested by a gazetted officer.
(C) The customer must submit an affidavit confirming the authenticity of the copy.

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(D) The copy must be notarized by a public notary.

Ans :

(A) The original document must be verified, and the copy authenticated by a bank officer.
When a bank receives a certified copy of an OVD for KYC purposes, it is not sufficient to just accept the copy. The procedure requires that the original document must be physically presented for verification. A bank officer must then authenticate the self-certified copy by stamping or writing 'verified with the original' and signing it, ensuring its authenticity.

Oct/Nov 2025

9. Which of the following is NOT considered an Officially Valid Document (OVD) for KYC purposes?
(A) Passport.
(B) Voter's Identity Card issued by the Election Commission of India.
(C) A student identity card issued by a university.
(D) Job card issued by NREGA duly signed by an officer of the State Government.

Ans :

(C) A student identity card issued by a university.
The list of Officially Valid Documents (OVDs) is specifically defined and includes Passport, Driving Licence, proof of possession of Aadhaar number, Voter's Identity Card, NREGA job card, and a letter from the National Population Register. A student identity card, while a form of identification, is not included in this official list for KYC compliance purposes.

May/June 2007

10. If a customer's OVD does not contain their updated address, which of the following documents can be accepted as temporary proof of address?
(A) A utility bill (e.g., electricity, piped gas) that is not more than two months old.
(B) A credit card statement that is three months old.
(C) A self-declaration of the new address without any supporting document.
(D) A rent agreement that is not registered.

Ans :

(A) A utility bill (e.g., electricity, piped gas) that is not more than two months old.
When an OVD lacks the current address, banks can accept certain other documents for the limited purpose of address verification. These include a utility bill from any service provider that is no more than two months old. However, the customer is required to submit an OVD with the current address within a period of three months.

Oct/Nov 2018

11. What is the procedure for verifying a change in a customer's name due to marriage?
(A) A self-declaration from the customer is sufficient.
(B) A new OVD with the changed name must be submitted immediately.
(C) A reference letter from two existing customers of the bank.
(D) An OVD with the previous name along with the marriage certificate or Gazette Notification.

Ans :

(D) An OVD with the previous name along with the marriage certificate or Gazette Notification.
In situations where a customer's name has changed, for instance, due to marriage, the bank can accept an Officially Valid Document (OVD) that bears the customer's previous name. This must be accompanied by a supplementary legal document, such as the marriage certificate or the relevant Gazette Notification, which officially records and validates the change of name.

May/June 2023

12. Which of the following statements about the use of Aadhaar for KYC is incorrect?
(A) Aadhaar can be used for KYC only with the written consent of the customer.
(B) The full Aadhaar number must be stored permanently in the bank's physical and electronic records.
(C) For customers wanting credit of a government subsidy, biometric authentication of Aadhaar is mandatory.
(D) Banks may carry out e-KYC Authentication or offline verification for customers voluntarily using Aadhaar.

Ans :

(B) The full Aadhaar number must be stored permanently in the bank's physical and electronic records.

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While Aadhaar can be used for KYC purposes with customer consent, it is mandatory for the bank to redact the Aadhaar number on its records, both physical and electronic. Only the last four digits of the Aadhaar number should be retained. Storing the full Aadhaar number is a violation of the prescribed norms, designed to protect customer privacy and data.

Oct/Nov 2009

13. A customer opens a new deposit account using OTP-based Aadhaar verification for non-face-to-face onboarding. What is the maximum aggregate balance that can be maintained across all their deposit accounts opened in this manner?
(A) ₹50,000
(B) ₹2,00,000
(C) ₹1,00,000
(D) ₹5,00,000

Ans :

(C) ₹1,00,000
For accounts opened through a non-face-to-face mode using OTP-based Aadhaar e-KYC, there are specific restrictions. The aggregate balance across all deposit accounts for the customer must not exceed ₹1,00,000. If this threshold is breached, the account becomes non-operational until full Customer Due Diligence, including submission of an OVD, is completed by the customer.

May/June 2016

14. For a deposit account opened via OTP-based Aadhaar e-KYC, what is the maximum aggregate of all credits allowed in a single financial year?
(A) ₹60,000
(B) ₹1,00,000
(C) There is no limit on credits.
(D) ₹2,00,000

Ans :

(D) ₹2,00,000
Accounts that are opened using the non-face-to-face OTP-based Aadhaar verification process are subject to several limitations to manage risk. One key restriction is that the aggregate of all credits in a financial year, across all deposit accounts of the customer, must not exceed ₹2,00,000. This is in addition to the aggregate balance limit of ₹1,00,000.

Oct/Nov 2016

15. What is the maximum validity period for an account opened through OTP-based Aadhaar verification before normal Customer Due Diligence (CDD) must be completed?
(A) One year
(B) Six months
(C) Two years
(D) Indefinite, as long as transaction limits are not breached.

Ans :

(A) One year
Both deposit and borrowal accounts opened through the OTP-based Aadhaar verification method are temporary. They are not permitted to operate for more than one year. Within this one-year period, the customer must complete the full identification process as per normal CDD requirements. If this is not done, the account faces closure or suspension of operations.

May/June 2014

16. For the purpose of Customer Due Diligence (CDD) of a sole proprietary firm, what documentation is required in addition to the CDD of the individual proprietor?
(A) Any one document from a specified list.
(B) Any two documents from a specified list.
(C) Any three documents from a specified list.
(D) A registration certificate is the only mandatory document.

Ans :

(B) Any two documents from a specified list.
To establish the identity and activity of a sole proprietary firm, banks must conduct CDD of the proprietor as an individual. Additionally, the bank is required to obtain any two documents from a prescribed list. This list includes items like a registration certificate, sales tax returns, GST certificate, and utility bills in the name of the firm.

Oct/Nov 2007

17. Which of the following documents is NOT required for the CDD of a registered Partnership Firm?
(A) Partnership Deed
(B) Audited balance sheets for the last three years
(C) Permanent Account Number (PAN) of the firm

NODIA

(D) KYC documents of all partners and beneficial owners

Ans :

(B) Audited balance sheets for the last three years
The standard CDD documentation for a registered Partnership Firm includes the Registration Certificate, the Partnership Deed, the firm's PAN, and the KYC documents of all partners, beneficial owners, and persons holding a power of attorney. While a bank might request financial statements for credit assessment, audited balance sheets are not a mandatory part of the core CDD document list.

May/June 2025

18. For KYC purposes, how are unregistered trusts and unregistered partnership firms classified?
(A) As 'unincorporated association' or 'body of individuals'
(B) As Juridical Persons
(C) As Companies
(D) As exempt from CDD requirements

Ans :

(A) As 'unincorporated association' or 'body of individuals'
For the purpose of applying KYC norms, entities that lack a formal, registered legal structure, such as unregistered trusts and unregistered partnership firms, are categorized under the term 'unincorporated association' or 'body of individuals'. This classification ensures that they are still subject to appropriate due diligence procedures, including obtaining resolutions, PAN/Form 60, and KYC of the relevant individuals.

Oct/Nov 2019

19. When is it NOT necessary to identify and verify the identity of any shareholder or beneficial owner of a company?
(A) When the company is a private limited entity.
(B) When the company is a start-up with less than 10 employees.
(C) When the customer or the owner of the controlling interest is a company listed on a stock exchange.
(D) When the company's annual turnover is below a specified threshold.

Ans :

(C) When the customer or the owner of the controlling interest is a company listed on a stock exchange.
The requirement to identify individual beneficial owners is waived in specific low-risk scenarios. This exception applies when the customer is a company listed on a recognized stock exchange or is a subsidiary of such a listed company. The transparency and regulatory oversight inherent in public listings are considered sufficient to mitigate the risks of anonymity.

May/June 2009

20. Based on the source, who would be considered a beneficial owner in a registered partnership firm?
(A) A partner holding more than 15% share in the firm's capital.
(B) A partner holding exactly 15% share in the firm's profit.
(C) Any partner, regardless of their share in capital or profit.
(D) A partner holding more than 10% share in the firm's capital.

Ans :

(A) A partner holding more than 15% share in the firm's capital.
The provided table clearly specifies the threshold for determining beneficial ownership in different entities. For a registered partnership firm, a natural person is identified as a beneficial owner if they are entitled to more than 15% of the capital or profits of the firm. A holding of exactly 15% does not meet this "more than 15%" criterion.

Oct/Nov 2011

21. What is the threshold for identifying a beneficial owner in a company based on share in capital or profit?
(A) More than 10%
(B) More than 15%
(C) More than 50%
(D) More than 25%

Ans :

(D) More than 25%
For a company, a natural person is identified as a beneficial owner if they hold an ownership or entitlement of more than 25% of the shares, capital, or profits. This threshold is a key element in piercing the corporate veil to identify the individuals who ultimately own or control the

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legal entity, which is a critical aspect of AML/ CFT compliance.

May/June 2010

22. If no natural person can be identified as a beneficial owner in a company based on shareholding or control rights, who is then considered the beneficial owner?
(A) The Chief Executive Officer (CEO) of the company.
(B) The individual holding a senior managing position.
(C) The Chairman of the Board of Directors.
(D) No beneficial owner needs to be identified in such a case.

Ans :

(B) The individual holding a senior managing position.
In situations where no natural person meets the specified thresholds for beneficial ownership through shareholding or control rights in a company or other specified entities, the regulations provide a fallback. In such cases, the individual who holds a senior managing position within the entity is to be identified and considered as the beneficial owner for KYC purposes.

Oct/Nov 2024

23. What is a key enhanced due diligence measure for accounts of non-face-to-face customers (other than Aadhaar OTP-based onboarding)?
(A) The customer must visit the branch within 30 days.
(B) The account can only be operated for cash withdrawals.
(C) The first payment should be effected through the customer's KYC-complied account with another regulated entity.
(D) A higher minimum balance must be maintained in the account.

Ans :

(C) The first payment should be effected through the customer's KYC-complied account with another regulated entity.
To mitigate the higher risks associated with non-face-to-face account opening, an enhanced due diligence measure is required. The first payment into the new account must be made from the customer's existing account with another Regulated Entity (RE) where they have already completed the full KYC process. This provides an additional layer of verification from a trusted source.

May/June 2018

24. A Politically Exposed Person (PEP) is defined as an individual entrusted with prominent public functions in which jurisdiction?
(A) Only in India.
(B) In any member country of the United Nations.
(C) In any country, including India.
(D) In a foreign country.

Ans :

(D) In a foreign country.
As per the guidelines, a Politically Exposed Person (PEP) is specifically defined as an individual who is or has been entrusted with prominent public functions in a foreign country. This includes Heads of States, senior politicians, senior government officials, and others. The definition focuses on foreign PEPs due to the specific cross-border risks associated with corruption and money laundering.

Oct/Nov 2005

25. Which type of account opened by a professional intermediary is generally not permitted by banks?
(A) Accounts where the intermediary is bound by client confidentiality, prohibiting disclosure of client details.
(B) 'Pooled Accounts' for mutual funds or pension funds.
(C) An account for a single, clearly identified client.
(D) Accounts where separate sub-accounts are maintained for each client.

Ans :

(A) Accounts where the intermediary is bound by client confidentiality, prohibiting disclosure of client details.
Banks are generally prohibited from opening accounts for professional intermediaries, such as lawyers or accountants, where the intermediary cannot disclose the identity of their clients due to professional confidentiality obligations. This is because such arrangements prevent the bank from performing its required Customer Due Diligence on the ultimate beneficial owners, creating a significant risk of anonymity and misuse.

NODIA

May/June 2020

26. What is the simplified due diligence requirement for opening a savings bank account for a Self-Help Group (SHG)?
(A) CDD of all members of the SHG is mandatory.
(B) CDD of all office bearers of the SHG shall suffice.
(C) CDD of the President and Treasurer of the SHG is sufficient.
(D) No CDD is required for SHG savings accounts.

Ans :

(B) CDD of all office bearers of the SHG shall suffice.
To promote financial inclusion and simplify the onboarding process for Self-Help Groups, the due diligence requirements are relaxed for their savings bank accounts. Instead of conducting Customer Due Diligence (CDD) for every single member, it is sufficient for the bank to perform CDD only for the office bearers of the SHG, who are authorized to operate the account.

Oct/Nov 2015

27. What is the CDD requirement when an SHG is credit-linked by the bank?
(A) CDD of only the office bearers is required.
(B) CDD of all the members of the SHG is to be undertaken.
(C) CDD is waived for credit-linked SHGs.
(D) CDD of the office bearers and 50% of the members is required.

Ans :

(B) CDD of all the members of the SHG is to be undertaken.
While a simplified process applies to SHG savings accounts, the requirement becomes more stringent when credit is extended. For the credit-linking of SHGs, the bank must undertake Customer Due Diligence (CDD) for all the members of the group, not just the office bearers. This is to ensure the identity and creditworthiness of all beneficiaries of the loan.

May/June 2013

28. A foreign student from a non-Pakistani nationality opens an NRO account. During the initial period before local address verification, what is the maximum amount of foreign remittance that can be credited to the account?
(A) USD 1,000 or equivalent, not to exceed ₹50,000.
(B) USD 500 or equivalent, not to exceed ₹50,000.
(C) USD 1,000 or equivalent, not to exceed ₹1,00,000.
(D) USD 2,000 or equivalent, not to exceed ₹1,00,000.

Ans :

(A) USD 1,000 or equivalent, not to exceed ₹50,000.
For foreign students' NRO accounts, there is an initial period where certain restrictions apply. During this time, foreign remittances can be credited, but they are capped. The total value of these remittances cannot exceed the equivalent of USD 1,000, and there is a further sub-limit that the total credits from these remittances cannot exceed ₹50,000.

Oct/Nov 2021

29. What is the maximum balance that can be held at any point in time in a 'Small Account'?
(A) ₹10,000
(B) ₹1,00,000
(C) ₹50,000
(D) ₹2,00,000

Ans :

(C) ₹50,000
'Small Accounts' are designed for financial inclusion for individuals who may not possess an Officially Valid Document (OVD). These accounts have several restrictions, one of which is a cap on the maximum balance. The balance in a Small Account at any point in time cannot exceed ₹50,000. However, this limit may be ignored for deposits from government grants.

May/June 2024

30. What is the maximum aggregate of all withdrawals and transfers in a month from a 'Small Account'?
(A) ₹10,000
(B) ₹5,000
(C) ₹20,000
(D) ₹50,000

Ans :

(A) ₹10,000
To manage the risks associated with accounts opened with simplified documentation, 'Small Accounts' have specific transactional limits. The aggregate of all withdrawals and transfers from such an account within a single month is not permitted to exceed ₹10,000. This restriction

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helps in preventing the account from being used for large-scale or high-velocity transactions.

Oct/Nov 2008

31. A 'Small Account' is initially valid for 12 months. If the customer provides evidence of having applied for an OVD, for how much longer can the account be continued?
(A) For another 6 months.
(B) For another 24 months.
(C) The account cannot be continued without submitting the OVD.
(D) For another 12 months.

Ans :

(D) For another 12 months.
A Small Account, opened on the basis of a self-declaration and photograph, is initially operational for a period of 12 months. If, within this period, the customer provides proof that they have applied for an Officially Valid Document (OVD), the bank can extend the validity of the account for a further period of 12 months, making the total validity 24 months.

May/June 2006

32. What is the primary purpose of allotting a Unique Customer Identification Code (UCIC) to each customer?
(A) To enable faster processing of loan applications.
(B) To provide a single view of a customer's various relationships and transactions with the bank.
(C) To act as a substitute for the customer's PAN.
(D) To allow customers to have multiple identities within the same bank.

Ans :

(B) To provide a single view of a customer's various relationships and transactions with the bank.
The Unique Customer Identification Code (UCIC) is designed to create a single, unified identity for each customer within a bank. This helps the bank to aggregate all of a customer's accounts, facilities, and transactions. It enables a holistic approach to risk profiling and transaction monitoring, and avoids repetitive KYC procedures for different products availed by the same customer.

NODIA

Oct/Nov 2017

33. What is the mandated frequency for periodic updation of KYC for high-risk customers?
(A) At least every five years.
(B) At least every eight years.
(C) At least every two years.
(D) At least every ten years.

Ans :

(C) At least every two years.
The frequency of periodic KYC updation is determined by the customer's risk category. For customers who are classified as high-risk, the regulations mandate that their KYC information and documentation must be updated at least once every two years. This ensures that the bank maintains current and relevant information for its most sensitive customer profiles, allowing for timely risk mitigation.

May/June 2008

34. For a low-risk customer, what is the minimum frequency for periodic KYC updation?
(A) Every two years.
(B) Every five years.
(C) Every eight years.
(D) Every ten years.

Ans :

(D) Every ten years.
In line with a risk-based approach, customers classified as low-risk have the longest interval for periodic KYC updation. The requirement for these customers is to have their KYC details updated at least once every ten years. For medium-risk customers, the prescribed frequency is at least once every eight years, creating a tiered system based on perceived risk.

Oct/Nov 2013

35. If an individual customer's KYC information has not changed, how can they provide a self-declaration for periodic updation?
(A) Through registered email-id, mobile number, ATMs, or other digital channels.
(B) Only by visiting the home branch in person.
(C) Through a notarized affidavit sent by post.
(D) By calling the bank's customer care helpline.

Ans :

(A) Through registered email-id, mobile number, ATMs, or other digital channels.

To simplify the periodic updation process for customers with no changes in their KYC information, banks are required to allow self-declarations through various channels. This includes the customer's email-id or mobile number registered with the bank, ATMs, internet banking, mobile applications, or a simple letter. This removes the need for a physical branch visit for simple re-confirmations.

May/June 2015

36. When a minor's account is converted to a major's account, what is a mandatory KYC requirement?
(A) A new PAN card must be submitted.
(B) Fresh photographs of the customer must be obtained.
(C) The account must be closed and a new one opened.
(D) A letter of consent from the former guardian is required.

Ans :

(B) Fresh photographs of the customer must be obtained.
When a minor customer attains the age of majority, the bank must update their KYC records. A key and mandatory step in this process is to obtain fresh, recent photographs of the individual, who is now a major. The bank also needs to verify the existing documents and information to ensure they comply with current CDD standards for an adult.

Oct/Nov 2012

37. Which of the following is NOT a stipulated alternate mode for the Customer Due Diligence (CDD) procedure?
(A) CDD by Third Party
(B) Video-based Customer Identification Process (V-CIP)
(C) CDD through a registered credit rating agency
(D) Digital KYC

Ans :

(C) CDD through a registered credit rating agency
The regulations permit specific alternate modes to facilitate CDD, especially for customers in distant locations. These approved modes include relying on CDD done by a third party (subject to conditions), the Video-based Customer Identification Process (V-CIP), and Digital KYC. CDD through a credit rating agency is not mentioned as a permitted alternate mode for this purpose.

May/June 2011

38. When a bank relies on CDD performed by a third party, what is the ultimate responsibility?
(A) The ultimate responsibility for CDD/EDD measures lies with the bank.
(B) The ultimate responsibility lies with the third party.
(C) The responsibility is shared equally between the bank and the third party.
(D) The ultimate responsibility lies with the customer.

Ans :

(A) The ultimate responsibility for CDD/EDD measures lies with the bank.
Although a bank is permitted to rely on the Customer Due Diligence process conducted by a third party, the regulations are very clear that this does not transfer the accountability. The ultimate responsibility for ensuring that the CDD or Enhanced Due Diligence (EDD) measures are correctly applied and are adequate always remains with the bank that is onboarding the customer.

Oct/Nov 2020

39. Which of the following is an incorrect statement regarding the infrastructure for V-CIP?
(A) The V-CIP solution must be a seamless, real-time, and encrypted audio-visual interaction.
(B) The V-CIP process should be operated by specifically trained officials of the bank.
(C) The technology infrastructure for V-CIP can be hosted by a third-party cloud service provider in India.
(D) The activity log and credentials of the official should be preserved.

Ans :

(C) The technology infrastructure for V-CIP can be hosted by a third-party cloud service provider in India.
The regulations for Video-based Customer Identification Process (V-CIP) mandate that the technology infrastructure must be housed in the bank's own premises. It cannot be outsourced to a third-party cloud service provider. This is to ensure the security, integrity, and control over the sensitive customer data and the identification

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process, making the other statements correct infrastructure requirements.

May/June 2022

40. Which of the following is a mandatory feature for the video recordings in a V-CIP?

(A) The recording must contain GPS co-ordinates (geo-tagging) and a date-time stamp.
(B) The video must be in high-definition 4K resolution.
(C) The recording must be at least 5 minutes long.
(D) The video must be audited by an external agency before account opening.

Ans :

(A) The recording must contain GPS co-ordinates (geo-tagging) and a date-time stamp.
To ensure the authenticity and integrity of the Video-based Customer Identification Process, it is a mandatory requirement that the video recordings are embedded with specific metadata. This includes the GPS co-ordinates of the customer's location at the time of the call (geo-tagging) and a precise date and time stamp, which helps in creating an auditable trail.

Oct/Nov 2023

41. During a V-CIP, if the official observes that the customer is being prompted by someone off-screen, what should be the immediate action?

(A) Ask the prompter to come on camera and identify themselves.
(B) Continue the process but make a note of the prompting in the file.
(C) Ask the customer to repeat the answers without prompting.
(D) Reject the process immediately.

Ans :

(D) Reject the process immediately.
The integrity of the V-CIP relies on the customer providing information independently. If the bank official conducting the video interaction observes any form of prompting at the customer's end, the procedure is compromised. In such a scenario, the prescribed action is to reject the V-CIP process immediately, as the authenticity of the customer's responses cannot be guaranteed.

NODIA

May/June 2019

42. What is a key difference between the Video-based Customer Identification Process (V-CIP) and Digital KYC?

(A) V-CIP uses biometrics, whereas Digital KYC uses OTP.
(B) V-CIP can be done remotely, while Digital KYC requires the bank's officer to meet the customer in person.
(C) V-CIP is only for individuals, while Digital KYC is for all customer types.
(D) V-CIP does not require PAN, but Digital KYC does.

Ans :

(B) V-CIP can be done remotely, while Digital KYC requires the bank's officer to meet the customer in person.
While both are digital onboarding methods, a fundamental distinction lies in the physical presence requirement. V-CIP is a completely remote process where the customer and bank official interact via video. In contrast, the "Digital KYC" process, as defined, requires the authorized official of the bank to be physically present with the customer to capture live photographs and documents.

Oct/Nov 2010

43. In the Digital KYC process, what information is required to be watermarked on the captured live photograph of the customer?

(A) The customer's full name and date of birth.
(B) The bank's branch code and the official's name.
(C) CAF number, GPS coordinates, official's name and code, and date-time stamp.
(D) The type of OVD being submitted by the customer.

Ans :

(C) CAF number, GPS coordinates, official's name and code, and date-time stamp.
To ensure the authenticity and create a verifiable record in the Digital KYC process, the live photograph of the customer must be embedded with a watermark. This watermark must contain a specific set of readable information: the Customer Application Form (CAF) number, GPS coordinates, the authorized official's name and unique code, and a full date (DD:MM:YYYY) and time (HH:MM:SS) stamp.

May/June 2017

44. What is the process for a customer to provide their signature in the Digital KYC process?
(A) The customer emails a scanned copy of their signature.
(B) The customer must visit the branch to sign the physical form.
(C) A digital signature certificate is mandatory for the customer.
(D) The validation with the OTP sent to the customer's mobile is treated as their signature.

Ans :

(D) The validation with the OTP sent to the customer's mobile is treated as their signature.
In the Digital KYC process, the need for a physical "wet" signature on the application form is replaced by a digital confirmation. An OTP (One-Time Password) is sent to the customer's own mobile number for them to verify the details. The successful validation using this OTP is legally treated as the customer's signature on the Customer Application Form (CAF).

Oct/Nov 2022

45. In the e-KYC service of UIDAI, what information does UIDAI provide to the bank after a successful biometric match?
(A) Digitally signed and encrypted demographic information and photograph.
(B) Only the customer's Aadhaar number and photograph.
(C) The customer's bank account details from other banks.
(D) A credit score and risk classification for the customer.

Ans :

(A) Digitally signed and encrypted demographic information and photograph.
When a bank uses the UIDAI's e-KYC service and the customer's biometrics match successfully, the UIDAI's Central Identities Data Repository (CIDR) responds with a secure data package. This package contains the customer's demographic information (like name, address, gender, date of birth, phone, email) and their photograph, all of which is digitally signed by UIDAI and encrypted for security.

May/June 2005

46. For which type of wire transfer is it not mandatory to include originator information such as name, address, and account number?
(A) Any domestic wire transfer below ₹50,000.
(B) Transfers where both the remitter and the beneficiary are banks or financial institutions.
(C) Any cross-border wire transfer.
(D) Transfers initiated through a mobile banking application.

Ans :

(B) Transfers where both the remitter and the beneficiary are banks or financial institutions.
The requirement to include detailed originator information in cross-border wire transfers is a key AML measure. However, an exception is made for transfers between financial institutions acting on their own behalf. When both the remitter and the beneficiary are banks or financial institutions, they are considered trusted parties, and the transfer is exempt from this specific requirement.

Oct/Nov 2014

47. What is the threshold for domestic wire transfers above which they must be accompanied by originator information (name, address, account number)?
(A) ₹10,000 and above.
(B) ₹25,000 and above.
(C) ₹50,000 and above.
(D) ₹1,00,000 and above.

Ans :

(C) ₹50,000 and above.
For domestic wire transfers, a threshold is set to determine when full originator information is required. All such transactions amounting to ₹50,000 or more must be accompanied by complete and accurate originator details, including name, address, and account number. This helps in maintaining a clear audit trail for significant domestic fund movements within the financial system.

May/June 2021

48. For how long must an ordering bank preserve the records of originator information for qualifying wire transfers?
(A) Five years.
(B) Three years.
(C) Eight years.
(D) Ten years.

NODIA

Ans :

(A) Five years.
Record-keeping is a crucial component of AML/CFT compliance. For all wire transfers that meet the specified criteria (both cross-border and domestic above the threshold), the ordering bank is required to preserve the originator information for a minimum period of at least five years. This ensures that the data is available for investigation by law enforcement agencies if required.

Oct/Nov 2006

49. A domestic remittance of funds via demand draft or NEFT for ₹50,000 or more must be effected through what means?
(A) Against cash payment only.
(B) Against cash payment with PAN card verification.
(C) By debit to the customer's account or against a cheque.
(D) By any means, as long as the customer is KYC compliant.

Ans :

(C) By debit to the customer's account or against a cheque.
To create a clear audit trail and prevent the misuse of banking instruments for laundering cash, regulations prohibit large remittances against cash. Any domestic remittance of ₹50,000 or more, whether by demand draft, NEFT, IMPS, or other modes, must be made either by debiting the customer's bank account or against a cheque, not against a cash payment.

May/June 2012

50. What is the maximum validity period for presenting payment instruments like cheques, demand drafts, and pay orders?
(A) One month from the date of issue.
(B) Six months from the date of issue.
(C) Twelve months from the date of issue.
(D) Three months from the date of issue.

Ans :

(D) Three months from the date of issue.
To prevent the circulation of stale instruments and reduce associated risks, a specific validity period is prescribed for payment instruments. Cheques, demand drafts, pay orders, and banker's cheques are considered valid for payment only if they are presented to the bank within a period of three months from the date written on the instrument.

Oct/Nov 2025

51. A co-operative credit society, which is a constituent of a commercial bank, presents an account payee cheque for ₹45,000 drawn on another bank for collection. Can the commercial bank collect this cheque?
(A) Yes, because the amount is less than ₹50,000 and the payee is a constituent co-operative credit society.
(B) No, account payee cheques can never be collected for a person other than the payee constituent.
(C) No, because co-operative credit societies are not allowed to use the collection facility.
(D) Yes, but only if the cheque is countersigned by the manager of the co-operative society.

Ans :

(A) Yes, because the amount is less than ₹50,000 and the payee is a constituent co-operative credit society.
While the general rule prohibits collecting an account payee cheque for anyone other than the named payee, there is a specific exception. Banks are permitted to collect account payee cheques for amounts not exceeding ₹50,000 in the accounts of their constituent co-operative credit societies, provided the ultimate payees are constituents of that society.

May/June 2007

52. Based on the source, what is the implication for a bank if an account is proven to be a 'Money Mule' account?
(A) The bank will receive a commendation for detecting the account.
(B) The bank will be considered to be in direct violation of KYC directives.
(C) The bank can close the account without any further regulatory consequence.
(D) The bank is only required to file a Suspicious Transaction Report (STR).

Ans :

(B) The bank will be considered to be in direct violation of KYC directives.
The source text clearly states the regulatory stance of the RBI on 'Money Mule' accounts. The discovery of such an account is not merely an operational issue to be resolved. It is treated as a

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fundamental failure of the bank's KYC process, and the bank is deemed to have failed in its compliance with the KYC Directions.

Oct/Nov 2018

53. When a bank sells its own products, such as reloading a travel card for a walk-in customer for ₹75,000, what is required?

(A) The transaction can be done against cash as it is the bank's own product.
(B) Only the identity of the walk-in customer needs to be verified.
(C) The transaction must be done only by debit to an account or against a cheque, and PAN must be verified.
(D) No specific measures are required for transactions below ₹1,00,000.

Ans :

(C) The transaction must be done only by debit to an account or against a cheque, and PAN must be verified.
The rules for transactions of ₹50,000 and above are not limited to third-party products. They also apply to the sale of a bank's own products to both account holders and walk-in customers. Therefore, such a transaction must be conducted via cheque or account debit (not cash), and the customer's PAN must be obtained and verified.

May/June 2023

54. What is a mandatory measure for all 'at-par' cheques issued by co-operative banks under an arrangement with a commercial bank?

(A) They must be for amounts less than ₹50,000.
(B) They must be issued only to the co-operative bank's own staff.
(C) They must be presented for payment within one month.
(D) They must be crossed 'account payee' irrespective of the amount.

Ans :

(D) They must be crossed 'account payee' irrespective of the amount.
To mitigate the risks associated with the 'at-par' cheque facility extended to co-operative banks, specific controls are mandated. One of the most important measures is that all 'at-par' cheques issued by the co-operative bank, regardless of their value, must be crossed 'account payee'. This prevents the cheque from being cashed over the counter and ensures it is credited to a bank account.

Oct/Nov 2009

55. Which entity has been authorized by the Government of India to act as and perform the functions of the Central KYC Records Registry (CKYCR)?

(A) Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI)
(B) National Securities Depository Limited (NSDL)
(C) Reserve Bank of India (RBI)
(D) Securities and Exchange Board of India (SEBI)

Ans :

(A) Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI)
The Central KYC Records Registry (CKYCR) is the central repository for KYC records of customers in the financial sector. The Government of India has authorized CERSAI (Central Registry of Securitisation Asset Reconstruction and Security Interest of India) to act as the CKYCR, responsible for receiving, storing, safeguarding, and retrieving customer KYC data in digital form.

May/June 2016

56. Within how many days of commencing an account-based relationship must a bank upload the customer's KYC information to the CKYCR?

(A) 2 days
(B) 10 days
(C) 15 days
(D) 30 days

Ans :

(B) 10 days
To ensure the Central KYC Records Registry is updated in a timely manner, a specific timeframe has been mandated for uploading new customer data. Banks are required to upload the KYC information and data for a new customer to the CKYCR system within 10 days of the commencement of the account-based relationship with that customer.

NODIA

Oct/Nov 2016

57. If a new customer provides a 'KYC Identifier' with explicit consent, what is the bank's obligation?

(A) The bank must still collect physical copies of all OVDs for its records.
(B) The bank shall retrieve the KYC records online from CKYCR and not ask for the same documents again.
(C) The bank should ask the customer to get a certified printout from the CKYCR.
(D) The bank must reverify the address by sending a letter, even if it matches the CKYCR record.

Ans :

(B) The bank shall retrieve the KYC records online from CKYCR and not ask for the same documents again.
The 'KYC Identifier' system is designed to prevent repetitive KYC submissions. If a customer provides their KYC Identifier and consents to its use, the bank is obligated to retrieve the KYC records directly from the CKYCR. The bank cannot then ask the customer to resubmit the same identification documents or information already available in the registry.

May/June 2014

58. Assertion (A): Transaction monitoring requires special attention to all complex, unusually large transactions that have no apparent economic or lawful purpose.
Reason (R): The primary objective of transaction monitoring is to fulfill the bank's obligation of furnishing prescribed information, such as Suspicious Transaction Reports, to the Financial Intelligence Unit - India (FIU-IND).
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) correctly describes a core activity of transaction monitoring. Reason (R) correctly states the ultimate regulatory objective of this activity. The reason banks pay special attention to such unusual transactions (A) is precisely because these are potential indicators of suspicious activity that, after due diligence, may need to be reported to FIU-IND as per the bank's legal obligation (R).

Oct/Nov 2007

59. Which of the following is included in the definition of a 'transaction' under the PMLA?
(A) Inquiring about interest rates on a fixed deposit.
(B) Downloading the bank's mobile application.
(C) Using a bank's safe deposit box.
(D) Visiting the bank's website.

Ans :

(C) Using a bank's safe deposit box.
The definition of 'transaction' under the Prevention of Money-Laundering Act (PMLA) is very broad. It covers not just fund transfers but also a wide range of other activities. This includes the opening of an account, entering into a fiduciary relationship, and the use of a safety deposit box or any other form of safe deposit provided by the bank.

May/June 2025

60. Based on the definition, which of the following would be a valid reason to flag a transaction as suspicious?
(A) A transaction that appears to have no bona-fide purpose.
(B) A transaction of a very high value.
(C) A transaction made to a foreign country.
(D) A transaction made in cash.

Ans :

(A) A transaction that appears to have no bona-fide purpose.
The provided definition outlines several grounds for suspicion. While high value, foreign location, or cash can be contributing factors, the core indicators are more specific. The text explicitly states that a transaction appearing to lack an economic rationale or a bona-fide purpose is a direct criterion for it to be considered a suspicious transaction by a person acting in good faith.

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CHAPTER 4

Opening Accounts of Various Types of Customers

Oct/Nov 2016

1. According to the eligibility criteria for opening an individual bank account, which of the following conditions must a person satisfy?
   (A) The person must be a major by age, of sound mind, and a resident Indian.
   (B) The person must be a major by age, of sound mind, and not be an un-discharged insolvent.
   (C) The person must be of sound mind, not disqualified by law, and possess a valid PAN card.
   (D) The person must be a major by age, a citizen of India, and not be an un-discharged insolvent.

   Ans :

   (B) The person must be a major by age, of sound mind, and not be an un-discharged insolvent.
   To open an individual account, a person must be competent to contract. This requires them to be a major by age, possess a sound mind, and not be an un-discharged insolvent or otherwise disqualified from contracting by any law to which they are subject. Citizenship or residency status are separate considerations from the fundamental contractual capacity.

May/June 2021

2. When opening an account for an individual who is not of sound mind, who is authorized to sign the account opening form?
   (A) A court-appointed guardian or natural guardian.
   (B) The individual's spouse or eldest child.
   (C) Any close relative who agrees to operate the account.
   (D) The individual themselves, with the signature attested by a doctor.

   Ans :

   (A) A court-appointed guardian or natural guardian.
   For individuals who are not of sound mind or are minors, the account opening form may be signed by a court-appointed guardian or a natural guardian, as the specific case may be. As per Anti-Money Laundering (AML) regulations, the guardian is also considered a 'customer', and their Know Your Customer (KYC) documents must be obtained by the bank.

Oct/Nov 2008

3. What is a primary reason for individuals to open a joint account?
   (A) To avail higher interest rates offered exclusively for joint accounts.
   (B) To comply with a regulatory mandate for family members living together.
   (C) To exercise joint control over funds or to provide convenient access for another person.
   (D) To reduce the per-person service charges levied by the bank on savings accounts.

   Ans :

   (C) To exercise joint control over funds or to provide convenient access for another person.
   Joint accounts are typically opened when funds belong to multiple people who want joint control, or when one person earns the funds but desires to give convenient access to another. It also serves to provide easy access to funds in the event of the death of one account holder, depending on the operational instructions provided to the bank.

May/June 2005

4. A joint account between a resident Indian and a Non-Resident Indian (NRI) is permissible only under which specific condition?
   (A) The NRI is a business partner of the resident account holder.
   (B) The funds in the account are exclusively from foreign remittances.
   (C) The NRI provides a No Objection Certificate from their country's central bank.

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(D) The NRI is a close relative of all the resident account holders.

Ans :

(D) The NRI is a close relative of all the resident account holders.
While joint accounts are generally opened with all holders being residents of India, an exception is made for accounts with a Non-Resident Indian (NRI). Such an account is permitted only if the NRI is a close relative of all the resident account holders. The specific details and regulations concerning such accounts are further elaborated under NRI banking norms.

Oct/Nov 2024

5. Which of the following statements regarding the opening of an account for an illiterate person is INCORRECT?
(A) A cheque book should not be issued under any circumstances.
(B) The rules must be explained to the person in a language they understand.
(C) A current account can be opened in the name of an illiterate person.
(D) The person must personally visit the bank with the passbook for withdrawals.

Ans :

(C) A current account can be opened in the name of an illiterate person.
Banks must take several precautions for illiterate persons' accounts. These include not issuing a cheque book and advising them to come personally for withdrawals with the passbook. Crucially, a current account should not be opened in the name of an illiterate person. The high volume and nature of transactions in current accounts are considered unsuitable for such account holders.

May/June 2013

6. When opening an account for an illiterate person, how is their consent documented on the account opening form?
(A) By obtaining their right-hand thumb impression, attested by the Branch Manager of the bank.
(B) By obtaining their left-hand thumb impression attested by a bank officer and a person known to the bank.
(C) By recording a verbal consent on an audio device in the presence of the Branch Manager.
(D) By obtaining a cross (X) mark in place of a signature, attested by two independent witnesses.

Ans :

(B) By obtaining their left-hand thumb impression attested by a bank officer and a person known to the bank.
For an illiterate person's account, their left-hand thumb impression is obtained on the account opening form. This must be done in the presence of an authorised bank officer. Additionally, a person well known to the bank must attest the thumb impression on the form, providing an extra layer of verification and security for the transaction's authenticity.

Oct/Nov 2017

7. If an illiterate depositor wishes to allow a literate person to operate their account, what is the required operational mandate?
(A) The account must be operated only by the "literate person only".
(B) The account must be operated with an "Either or Survivor" mandate.
(C) The literate person is given a power of attorney to operate the account independently.
(D) The account can only be operated jointly by both the illiterate depositor and the literate person.

Ans :

(D) The account can only be operated jointly by both the illiterate depositor and the literate person.
An illiterate person's account cannot be operated under mandates like "E or S" or "literate person only". If a literate person is to be involved in operations, the illiterate depositor must submit an authorisation-cum-indemnity letter in the prescribed format. The explicit condition for such an arrangement is that the account can only be operated jointly by both individuals.

May/June 2024

8. Which of the following is a key precaution a bank must take when dealing with the account of a blind person?
(A) Obtain a left-hand thumb impression if inconsistency in signature is noticed.
(B) Prohibit the use of a cheque book for all transactions.

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(C) Insist that all transactions are conducted only by a court-appointed guardian.
(D) Limit the account balance to a pre-specified maximum amount.

Ans :

(A) Obtain a left-hand thumb impression if inconsistency in signature is noticed.
Due care is essential in operating a blind person's account due to potential signature inconsistencies. While they can operate accounts independently, if the bank notices a significant variation in the signature, it is a prudent practice to obtain the customer's left-hand thumb impression as an additional measure of authentication to protect them from potential fraud.

Oct/Nov 2021

9. When updating the passbook for a blind person, what specific procedure should a bank official follow?
(A) Hand over the updated passbook directly to the messenger accompanying the blind person.
(B) Send the updated passbook to the customer's registered address via registered post only.
(C) Read out the entries and balance to the customer when no other person is in hearing distance.
(D) Obtain the customer's thumb impression in the passbook next to the latest entry as confirmation.

Ans :

(C) Read out the entries and balance to the customer when no other person is in hearing distance.
To ensure confidentiality and prevent the blind customer from being cheated, bank procedure requires that after every transaction, the passbook entries and the resulting balance must be read out loud to the customer. This should be done discreetly, ensuring that no other person is within hearing distance to overhear the sensitive financial information being shared.

May/June 2008

10. According to the Indian Majority Act, 1875, a person for whom a guardian has been appointed by a court attains the age of majority upon completing how many years?
(A) 18 years
(B) 16 years
(C) 21 years
(D) 25 years

Ans :

(A) 18 years
The Indian Majority Act, 1875, specifies the age of majority. For every person domiciled in India, including cases where a guardian for the person or property has been appointed by a court, the age of majority is attained upon the completion of 18 years. This is distinct from earlier laws that sometimes considered 21 years in such cases.

Oct/Nov 2013

11. As per Section 11 of the Indian Contract Act, 1872, a contract with a minor is generally considered what?
(A) Valid and enforceable.
(B) Voidable at the option of the other party.
(C) Valid only for amounts below a certain threshold.
(D) Void, as a minor is not competent to contract.

Ans :

(D) Void, as a minor is not competent to contract.
Section 11 of the Indian Contract Act, 1872, states that only a person who is of the age of majority is competent to contract. Consequently, a minor is not competent to enter into a contract, and any agreement made with a minor is considered void ab initio (void from the beginning), affecting their capacity to hold or dispose of property.

May/June 2019

12. Despite the general rule that contracts with minors are void, which type of contract with a minor is considered valid?
(A) A contract for the purchase of luxury goods.
(B) A contract for the supply of necessities of life.
(C) A contract to provide a loan to the minor.
(D) A contract of guarantee where the minor is the principal debtor.

Ans :

(B) A contract for the supply of necessities of life.
While most contracts with a minor are void, an exception exists for contracts involving the supply of "necessities of life" suitable to the minor's status. Such contracts are considered valid to ensure the minor's well-being. Similarly, a minor can be a beneficiary in a contract, such as recovering money they have advanced to others.

NODIA

Oct/Nov 2005

13. To encourage savings habits, banks allow minors above a certain age to open and operate deposit accounts independently. What is this specified age?
(A) 8 years
(B) 12 years
(C) 10 years
(D) 14 years

Ans :

(C) 10 years
With the objective of inculcating the habit of thrift and savings from a young age, banks are permitted to allow minors who are above the age of 10 years to open and operate their own deposit accounts. This is subject to certain conditions, such as the minor being literate and the account not being allowed to be overdrawn.

May/June 2010

14. Which of the following statements regarding the guardianship for a minor's bank account is correct?
(A) Only the father can be the natural guardian for all purposes.
(B) A step-father or step-mother can act as a natural guardian if residing with the minor.
(C) Two minors can open a joint account provided there is a single, common guardian.
(D) RBI has permitted banks to open a minor's account with the mother as a guardian.

Ans :

(D) RBI has permitted banks to open a minor's account with the mother as a guardian.
While the father is traditionally considered the natural guardian, the Reserve Bank of India (RBI) has explicitly permitted banks to open a minor's account with the mother acting as the guardian. The term 'natural guardian' does not extend to step-parents. Furthermore, it is a rule that two minors cannot open a joint account together.

Oct/Nov 2018

15. According to Section 26 of the Negotiable Instruments Act, 1881, what is the legal position of a minor with respect to a negotiable instrument?
(A) A minor can draw and endorse a cheque, binding all other parties except themselves.
(B) A minor can draw and endorse a cheque, binding all parties including themselves legally.
(C) A minor is legally barred from drawing, endorsing, or delivering any type of negotiable instrument.
(D) A minor can only endorse a cheque received in their name but is not permitted to draw one.

Ans :

(A) A minor can draw and endorse a cheque, binding all other parties except themselves.
Section 26 of the N.I. Act allows a minor to draw, endorse, deliver, and negotiate instruments like cheques. This action binds all other parties to the instrument, but the minor themselves incurs no liability. This provision allows minors to participate in such transactions while protecting them from financial liability due to their legal status.

May/June 2007

16. What action must be taken when a minor account holder attains majority?
(A) The guardian must close the account and transfer the balance to a new account in the major's name.
(B) The erstwhile minor must confirm the balance and provide fresh operating instructions.
(C) The guardian is allowed to continue operating the account for a grace period of one year.
(D) The account is automatically frozen and the balance is transferred to the guardian's personal account.

Ans :

(B) The erstwhile minor must confirm the balance and provide fresh operating instructions.
Upon a minor attaining the age of majority, the guardian's authority to operate the account ceases immediately. The bank must stop all operations by the guardian. The person who is now a major must confirm the existing balance in the account, provide fresh operating instructions, and submit a new specimen signature for the bank's records.

Oct/Nov 2025

17. In a Hindu Undivided Family (HUF), who are the members of the family referred to as?
(A) Beneficiaries
(B) Coparceners
(C) Partners
(D) Trustees

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Ans :

(B) Coparceners
In a Hindu Undivided Family (HUF), the family business is inheritable and the property becomes HUF property. The members of the family who have a right by birth in this property are legally referred to as coparceners. The eldest male was traditionally the manager or Karta, but this has evolved through legal changes and court rulings.

May/June 2012

18. Based on the 2005 amendment to the Hindu Succession Act and a subsequent Delhi High Court judgment, who can be the 'Karta' of an HUF?
(A) The eldest male member or, as per a Delhi HC ruling, the eldest female member.
(B) Only the eldest male member of the family, as per traditional law.
(C) Only a married male member of the family who has children.
(D) Any adult coparcener chosen by a majority vote of all family members.

Ans :

(A) The eldest male member or, as per a Delhi HC ruling, the eldest female member.
Traditionally, the Karta was the eldest male member. The 2005 amendment to the Hindu Succession Act recognized daughters as coparceners. Subsequently, a Delhi High Court judgment in the case of Mrs. Sujata Sharma vs. Shri Manu Gupta (2015) held that the eldest female member of the family can also be the Karta of the HUF.

Oct/Nov 2014

19. What is the liability of coparceners in an HUF with an ancestral business?
(A) They have unlimited personal liability for the firm's debts.
(B) They have no liability, as all liability rests solely with the Karta.
(C) They are liable only to the extent of their share in the family property.
(D) Their liability is limited to the amount of capital they personally contributed.

Ans :

(C) They are liable only to the extent of their share in the family property.
When the business of a Hindu Undivided Family is ancestral, the liability of the coparceners is limited. They are responsible for the business's debts only to the extent of their respective shares in the joint family property. They do not have unlimited personal liability, which protects their personal assets from business creditors of the HUF.

May/June 2023

20. Which document is advisable for a bank to obtain when opening an HUF account to formally establish who the Karta is?
(A) A court order from a competent jurisdiction appointing the Karta.
(B) A copy of the family tree certified by a local government authority.
(C) A notarized affidavit from the Karta declaring their status and sole authority.
(D) A declaration from all adult members of the HUF specifying the Karta.

Ans :

(D) A declaration from all adult members of the HUF specifying the Karta.
Since there is no formal legal procedure for designating the Karta of an HUF, it is a prudent banking practice to obtain a declaration. This declaration should be signed by all the adult members of the HUF, clearly stating who is designated as the Karta, who will have the authority to operate the bank account.

Oct/Nov 2011

21. Which type of bank account is NOT permitted to be opened in the name of a sole proprietorship firm?
(A) Current Account
(B) Cash Credit Account
(C) Savings Account
(D) Overdraft Account

Ans :

(C) Savings Account
The law does not distinguish between a proprietor and their proprietary concern; they are treated as one and the same. Accounts for such firms are treated as individual accounts. However, a key rule is that a savings account, which is meant for personal savings, cannot be opened in the name of a business entity like a proprietorship firm.

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May/June 2006

22. According to Section 4 of the Indian Partnership Act, 1932, what is the defining characteristic of a partnership?

(A) A legal entity formed by at least two individuals with limited liability for all partners, similar to a company.

(B) A relationship between persons who have agreed to share profits from a business carried on by all or any of them acting for all.

(C) A business structure where registration with the Registrar of Firms is mandatory across all states in India.

(D) An association of persons where profits are shared equally by default, irrespective of the partnership deed's terms.

Ans :

(B) A relationship between persons who have agreed to share profits from a business carried on by all or any of them acting for all.

Section 4 of the Indian Partnership Act, 1932, defines a partnership as the relationship between individuals who have consented to share the profits of a business. A crucial element of this definition is the principle of mutual agency, where the business is conducted by all partners or by any one of them acting on behalf of all.

Oct/Nov 2019

23. In which states is the registration of a partnership firm considered optional?

(A) It is optional in all states and union territories of India.

(B) It is mandatory in all states of India without exception.

(C) It is mandatory only in metropolitan cities with a high business volume.

(D) It is optional in all states except Gujarat and Maharashtra.

Ans :

(D) It is optional in all states except Gujarat and Maharashtra.

The registration of a partnership firm under the Indian Partnership Act, 1932, is generally optional. However, it is mandatory in the states of Gujarat and Maharashtra. In other states, while not mandatory, registration is often recommended as it provides certain legal advantages, such as the ability to file suits against third parties.

NODIA

May/June 2009

24. What action should a bank take if a partner in a firm with a debit balance account gives a notice to stop operations due to a dispute?

(A) Stop all operations and permit further transactions only when all partners jointly give instructions.

(B) Ignore the notice and allow the other partners to continue operations as usual.

(C) Allow operations only by the partner who gave the stop notice until the dispute is resolved.

(D) Close the account immediately and file a legal suit against the firm for the debit balance.

Ans :

(A) Stop all operations and permit further transactions only when all partners jointly give instructions.

In case of a dispute among partners, if any partner issues a stop operation notice, the bank must immediately halt all transactions. The account can then be made operative again only upon the joint instructions of all partners. This is done to protect the bank from liability arising from the internal disputes of the firm's partners.

Oct/Nov 2006

25. What is the primary implication of Clayton's Rule in the context of a partnership account with a debit balance when a new partner is added?

(A) The new partner automatically becomes liable for the old debit balance of the firm.

(B) All future credits will first be applied to the new transactions created after the partner joined.

(C) The old account should be frozen and a new account opened to crystallize the liability.

(D) The rule is not applicable to partnership accounts, only to individual accounts.

Ans :

(C) The old account should be frozen and a new account opened to crystallize the liability.

Clayton's Rule states that credits to an account discharge debits in chronological order. If a partnership account has a debit balance and a new partner joins, continuing the same account would mean future deposits (credits) would pay off the old debt, for which the new partner is not liable. To avoid this, the old account is frozen to fix the liability.

May/June 2014

26. Which of the following actions is a partner NOT empowered to do on behalf of the partnership firm?

(A) Acquire or transfer immovable property on behalf of the firm.
(B) Countermand the payment of a cheque drawn by another partner.
(C) Draw a cheque for business purposes on the firm's account.
(D) Purchase goods required for the firm's business on credit.

Ans :

(A) Acquire or transfer immovable property on behalf of the firm.
While partners have implied authority to act for the firm in its ordinary course of business, certain acts are outside this scope unless explicitly authorized. A partner cannot unilaterally open a bank account in their own name for the firm, withdraw a legal suit, admit liability in a suit, or, crucially, acquire or transfer immovable property on the firm's behalf.

Oct/Nov 2007

27. What is the legal status of a Limited Liability Partnership (LLP)?

(A) It is treated the same as a traditional partnership firm with unlimited liability.
(B) It is considered an unregistered body with no separate legal existence from its members.
(C) It is a type of sole proprietorship that is managed by multiple designated partners.
(D) It is a corporate body and a legal entity separate from its partners.

Ans :

(D) It is a corporate body and a legal entity separate from its partners.
A Limited Liability Partnership (LLP), formed under the LLP Act, 2008, is a corporate person. This means it has a separate legal identity distinct from its partners. Consequently, it is not affected by changes in its partners due to reasons like resignation or death, and its bank account can continue even if it is in debit balance.

May/June 2025

28. What are the minimum and maximum contribution and turnover limits for a Limited Liability Partnership (LLP) to be classified as a "small limited liability partnership"?

(A) Contribution not exceeding ₹10 lac and turnover not exceeding ₹20 lac.
(B) Contribution not exceeding ₹25 lac and turnover not exceeding ₹40 lac.
(C) Contribution not exceeding ₹50 lac and turnover not exceeding ₹1 crore.
(D) Contribution not exceeding ₹1 crore and turnover not exceeding ₹5 crore.

Ans :

(B) Contribution not exceeding ₹25 lac and turnover not exceeding ₹40 lac.
A "small limited liability partnership" is defined as an LLP where the contribution does not exceed twenty-five lakh rupees (₹25 lac). Additionally, its turnover for the immediately preceding financial year, as per the Statement of Accounts and Solvency, must not exceed forty lakh rupees (₹40 lac). Both conditions must be met for this classification.

Oct/Nov 2010

29. Which of the following statements correctly describes the liability of partners in an LLP?

(A) All partners have unlimited personal liability for the LLP's business debts.
(B) Every partner is an agent of the other partners and can bind them with their personal assets.
(C) The partners will not be personally liable for any business dues that may occur.
(D) Only the Designated Partners have unlimited personal liability, while other partners are protected.

Ans :

(C) The partners will not be personally liable for any business dues that may occur.
A key feature of a Limited Liability Partnership (LLP) is the limited liability of its partners. Unlike a traditional partnership, the partners in an LLP are not personally liable for the debts or obligations of the LLP. Their liability is generally limited to their agreed contribution in the LLP, protecting their personal assets.

May/June 2016

30. As per Section 2(68) of the Companies Act, 2013, what is the maximum number of members allowed in a Private Ltd. Company?

(A) 50 members
(B) 100 members
(C) No upper limit
(D) 200 members

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Ans :

(D) 200 members.
A Private Ltd. Company must have a minimum of 2 members and is restricted to a maximum of 200 members. This maximum number, as defined in Section 2(68) of the Companies Act, 2013, does not include individuals who are currently in the employment of the company or were former employees and continue to be members.

Oct/Nov 2009

31. A company in which 51% or more of the shares are held by the Central or a State Government is known as what?
(A) Government Company
(B) Public Sector Undertaking
(C) Statutory Corporation
(D) Departmental Undertaking

Ans :

(A) Government Company.
As per Section 2(45) of the Companies Act, 2013, a Government Company is defined as a company in which at least 51% of the shares are held by one or more Central or State Governments. This definition also includes a subsidiary of such a company. The word 'Limited' is not required in the name of such companies.

May/June 2018

32. What is the primary characteristic of a One Person Company (OPC) as defined by the Companies Act, 2013?
(A) It is a type of public company that is managed by a single director.
(B) It has only one person as a member and another person named as a Nominee.
(C) It is a company that is legally restricted to engaging only in non-profit activities.
(D) It requires a minimum of two members, one of whom is designated as a sleeping partner.

Ans :

(B) It has only one person as a member and another person named as a Nominee.
Section 2(62) of the Companies Act, 2013 defines a One Person Company (OPC) as a company that has only one person as its member. A key requirement for an OPC is that another individual must be named as a nominee, who would become the member in the event of the original member's death or incapacity.

Oct/Nov 2022

33. What is the effect of the death of an authorised signatory on the cheques signed by them for a limited company's account?
(A) The bank must immediately stop payment of all cheques signed by the deceased signatory.
(B) The payment of cheques signed by the deceased signatory does not need to be stopped.
(C) The cheques are valid only if countersigned by another authorised signatory.
(D) The company must pass a new resolution to validate the outstanding cheques.

Ans :

(B) The payment of cheques signed by the deceased signatory does not need to be stopped.
A limited company is a separate legal entity and continues to exist regardless of the death of an authorised signatory. The signatory signs on behalf of the company, not in a personal capacity. Therefore, the death of a signatory does not revoke the company's mandate, and the bank does not need to stop payment of cheques already signed.

May/June 2017

34. Under Section 131 of the N.I. Act, 1881, what would be the implication if a bank deposits a cheque payable to a company into the personal account of a director?
(A) It would amount to negligence on the part of the bank.
(B) It is a standard practice and carries no risk.
(C) It is permissible if the director provides an indemnity.
(D) It is allowed only for One Person Companies.

Ans :

(A) It would amount to negligence on the part of the bank.
A cheque payable to a company is the property of the company, which is a separate legal entity. Crediting such a cheque to the personal account of a director or employee constitutes a conversion of the company's funds. This act is considered negligence under Section 131 of the Negotiable Instruments Act, 1881, and the bank would lose its statutory protection.

NODIA

Oct/Nov 2015

35. When opening an account for an unregistered club or association, what is a crucial document the bank must examine?
(A) The certificate of incorporation.
(B) The PAN card of the chairman.
(C) The bye-laws or rules of the organization.
(D) A list of all founding members.

Ans :

(C) The bye-laws or rules of the organization.
For unregistered bodies like clubs or associations, there is no certificate of incorporation. Therefore, to understand the governance structure, the bank must examine the bye-laws, rules, or a Memorandum of Understanding. This document outlines the powers and functions of the committee members and specifies who is authorized to operate the bank account on behalf of the body.

May/June 2020

36. In the context of a Trust, what is the term for the person who reposes or declares the confidence?
(A) Trustee
(B) Beneficiary
(C) Settlor
(D) Author of the trust

Ans :

(D) Author of the trust.
A trust involves three key parties. The person who reposes or declares the confidence, thereby creating the trust, is called the author of the trust. The person who accepts the confidence and manages the property is the trustee, and the person for whose benefit the trust is created is the beneficiary. The instrument creating it is the Trust Deed.

Oct/Nov 2012

37. What is the default rule for the operation of a bank account held by two or more trustees?
(A) Any one trustee can operate the account.
(B) The senior-most trustee is authorised to operate the account.
(C) The account must be operated jointly by all trustees.
(D) The trustees can decide the mode of operation verbally.

Ans :

(C) The account must be operated jointly by all trustees.
In the case of an account with two or more trustees, the default operational mandate is that all trustees must act jointly. This is because trusteeship is a joint responsibility. An alternative mode of operation, such as by one or some of the trustees, is permissible only if it is specifically and explicitly authorized by the Trust Deed.

May/June 2011

38. What happens to the authority of trustees if one of the trustees dies?
(A) The account is frozen until a new trustee is appointed by the court.
(B) The authority is vested in the remaining trustees.
(C) The authority passes to the legal heirs of the deceased trustee.
(D) The bank must close the account and open a new one.

Ans :

(B) The authority is vested in the remaining trustees.
The role of a trustee is a personal one and not inheritable. If one of several trustees dies, their authority does not pass to their heirs. Instead, the authority to manage the trust and operate its accounts is automatically vested in the surviving or remaining trustees, who can continue to act on behalf of the trust.

Oct/Nov 2020

39. Can a bank exercise its right of set-off against funds in a Trust account for a personal debt owed by a trustee?
(A) Yes, if the trustee is the sole signatory and has given an undertaking.
(B) Yes, but only with the written and notarized permission of the beneficiary.
(C) No, unless the Trust Deed explicitly allows for such a set-off in specific situations.
(D) No, the bank has no right to set off against the Trust Fund for a trustee's individual debts.

Ans :

(D) No, the bank has no right to set off against the Trust Fund for a trustee's individual debts.
The funds in a trust account belong to the trust, not to the trustees in their personal capacity. The bank is aware of the fiduciary nature of the

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account. Therefore, the principle of combining accounts does not apply, and the bank cannot legally exercise its right of set-off against the trust fund to recover debts owed by a trustee personally.

May/June 2022

40. How is an Administrator different from an Executor?

(A) An Administrator is appointed by the court for a person who died intestate, while an Executor is named in the will.

(B) An Administrator is named in the will, while an Executor is appointed by the court.

(C) An Executor manages the property assets, while an Administrator only pays the outstanding debts.

(D) There is no legal difference; the terms are used interchangeably in banking practice.

Ans :

(A) An Administrator is appointed by the court for a person who died intestate, while an Executor is named in the will.

The key distinction lies in their appointment. An Executor is a person specifically named in the deceased's will (by the Testator) to administer the estate. An Administrator, on the other hand, is a person appointed by a court of law to manage the estate of a person who has died without leaving a valid will (intestate).

Oct/Nov 2023

41. How should a bank account for an Executor or Administrator be titled?

(A) In the name of the deceased person only, until the estate is settled.

(B) Jointly in the name of the Executor and the primary beneficiary of the will.

(C) In the individual's name with "Executor" or "Administrator" suffixed, and "Estate of (Deceased)" noted.

(D) In a generic account title like "Estate Account" without naming the individual fiduciary.

Ans :

(C) In the individual's name with "Executor" or "Administrator" suffixed, and "Estate of (Deceased)" noted.

The account should be opened in the name of the individual appointed, with their role clearly suffixed (e.g., "John Doe, Executor"). Additionally, a supplementary notation like "Estate of Jane Smith, deceased" should be added. This clearly identifies the fiduciary nature of the account and links it to the specific estate being administered, preventing commingling of funds.

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May/June 2015

42. What is a key requirement for a Co-operative Society to open an account with a commercial bank?

(A) Permission from the Registrar of Co-operative Societies, if required by state laws.

(B) Approval from the Ministry of Finance, Government of India.

(C) A resolution signed by at least 75% of the members of the society.

(D) A minimum opening deposit as prescribed by the Reserve Bank of India.

Ans :

(A) Permission from the Registrar of Co-operative Societies, if required by state laws.

The rules and bye-laws of a co-operative society must be examined. Some states have restrictions that require co-operative societies to bank primarily with co-operative banks. To open an account with a commercial bank in such states, the society must first obtain permission from the Registrar of Co-operative Societies, who may impose certain conditions on the account.

Oct/Nov 2016

43. For government receipts, what is the validity period of a challan passed by the treasury/sub-treasury before it requires revalidation?

(A) 3 days

(B) 30 days

(C) 3 months

(D) 10 days

Ans :

(D) 10 days.

When payments are made to the government, they are done through challans. These challans must be passed by the relevant treasury or sub-treasury before being presented to the bank for payment. A passed challan has a limited validity of ten days. If it is not presented within this period, it expires and must be revalidated before the bank can accept it.

May/June 2021

44. Which of the following is a characteristic of refund orders issued by government departments like Central Excise or Income Tax?

(A) They are fully negotiable instruments, similar to bearer cheques.

(B) They are quasi-negotiable and do not attract any stamped discharge.

(C) They require a specific stamped discharge from the payee before payment.

(D) They must be presented for payment within 24 hours of issue to be valid.

Ans :

(B) They are quasi-negotiable and do not attract any stamped discharge.

Refund orders issued by government departments are special payment instruments. They are considered quasi-negotiable, meaning they have some but not all characteristics of a fully negotiable instrument. A key feature is that they are payable to the named payee and do not require a separate stamped receipt or discharge from the payee upon payment by the bank.

Oct/Nov 2011

45. According to the new regime for opening current accounts, what is the rule for persons who do not have any borrowing arrangement with a scheduled commercial bank or payment bank?

(A) They can only open a current account with a designated payment bank.

(B) They must obtain a No Objection Certificate from their primary savings bank.

(C) There is no restriction on opening current accounts by any bank for them.

(D) They are restricted to opening only one current account within the entire banking system.

Ans :

(C) There is no restriction on opening current accounts by any bank for them.

For individuals or entities that have not availed any borrowing facility from any scheduled commercial bank or payment bank, the RBI's revised guidelines impose no restrictions. Any bank can open a current account for such customers, subject to carrying out the necessary due diligence as per the bank's own board-approved policies. This also applies to those with credit from NBFCs/FIs.

May/June 2010

46. Based on the source, if a borrower has a CC/OD facility and a total banking system exposure of ₹12 crore, under what condition can Bank A open a current account for them?

(A) Bank A is the bank with the highest exposure to the borrower.

(B) The borrower provides an undertaking to Bank A.

(C) Bank A is not permitted to open a current account, only a collection account.

(D) Bank A's exposure to the borrower is at least ₹1.2 crore.

Ans :

(D) Bank A's exposure to the borrower is at least ₹1.2 crore.

The source states that for a borrower with exposure of ₹5 crore or more, a bank can open a current account if it has a CC/OD facility and its share of exposure is at least 10%. In this case, the total exposure is ₹12 crore. Therefore, Bank A must have an exposure of at least 10% of ₹12 crore, which is ₹1.2 crore.

Oct/Nov 2024

47. According to the provided text, what type of account can a non-lending bank open for a borrower whose total exposure to the banking system is ₹60 crore?

(A) No account of any kind is permitted.

(B) A regular current account.

(C) An escrow account.

(D) A collection account.

Ans :

(A) No account of any kind is permitted.

The source is explicit for borrowers with an exposure of ₹50 crore or more. The escrow managing bank can open the current/escrow account, and other lending banks can open collection accounts. The text clearly states that "Non-lending banks shall not open any current account for such borrowers" and does not permit them to open collection accounts either.

May/June 2013

48. Based on the excerpt from Table 4.1, why is a specific account for a real estate project exempted from the general current account opening norms?

(A) Because it is related to a project of national importance designated by the government.

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(B) Because it is mandated by a specific statute, the RERA Act, 2016.
(C) Because the funds are exclusively used for paying government taxes and duties.
(D) Because the account is jointly operated by the developer and the home buyers' association.

Ans :

(B) Because it is mandated by a specific statute, the RERA Act, 2016.
The source clearly indicates that the exemption applies to accounts for real estate projects that are "mandated under Section 4 (2) I (D) of the Real Estate (Regulation and Development) Act, 2016". This shows that the exemption is granted because the account's creation and specific use (maintaining 70% of collections) are stipulated by another law or regulator.

Oct/Nov 2017

49. According to this rule, which of the following would be excluded when computing a proprietorship's total exposure?
(A) A ₹2 crore Cash Credit limit in the firm's name.
(B) None of the above; all should be included.
(C) A ₹50 lakh personal home loan in the proprietor's name.
(D) A ₹10 lakh limit for transacting in FX derivatives.

Ans :

(B) None of the above; all should be included.
The source provides a comprehensive definition of exposure. It explicitly states that for proprietorship firms, borrowings in both the firm's name (for business) and the proprietor's name (for personal purposes) must be counted together. It also includes fund-based (Cash Credit, home loan) and non-fund based facilities (FX derivative limits), so all the listed items must be included.

May/June 2024

50. As per the timeline in the table, a corporate borrower with a total exposure of ₹15 crore from the banking system was required to obtain a Legal Entity Identifier (LEI) by which date?
(A) April 30, 2024
(B) April 30, 2023
(C) April 30, 2025
(D) October 1, 2022

Ans :

(A) April 30, 2024.
The borrower's total exposure is ₹15 crore. According to the provided table, this amount falls into the category of "Above ₹10 crore, up to ₹25 crore". The corresponding deadline for obtaining the Legal Entity Identifier (LEI) for this exposure bracket is specified as April 30, 2024, making it the correct date.

Oct/Nov 2021

51. Mr. Sharma opened a savings account for his minor son, Aman, who is 12 years old. The account is operated by Mr. Sharma as the guardian. The bank, with proper checks, also issued a debit card to Aman for limited use. Aman's account has a credit balance. Which of the following actions is NOT permissible for this account?
(A) Aman using his debit card at an ATM to withdraw cash.
(B) Mr. Sharma depositing a gift cheque received by Aman into the account.
(C) The bank allowing an overdraft of ₹5,000 against a fixed deposit in Aman's name.
(D) The bank recording Aman's date of birth in its system.

Ans :

(C) The bank allowing an overdraft of ₹5,000 against a fixed deposit in Aman's name.
A fundamental rule for a minor's account is that it should not be allowed to be overdrawn under any circumstances. Allowing an overdraft, even if secured by a deposit, would create a debt liability for the minor, which is not permissible. RBI has allowed facilities like ATM/debit cards, provided the account is always maintained in credit.

May/June 2008

52. A partnership firm 'ABC Traders' has an account with a debit balance of ₹2 lakhs. Mr. C, one of the three partners, retires from the firm. The remaining partners, Mr. A and Mr. B, want to continue the business and the same bank account. What is the most appropriate action for the bank to take?
(A) Allow Mr. A and Mr. B to continue the same account after obtaining a simple letter from them.
(B) Close the account immediately and ask the reconstituted firm to settle the entire debit balance.

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(C) Continue the account but take a fresh undertaking from Mr. A and Mr. B for the old debt.
(D) Freeze the old account to crystallize Mr. C's liability and open a new account for the reconstituted firm.

Ans :

(D) Freeze the old account to crystallize Mr. C's liability and open a new account for the reconstituted firm.
Upon the retirement of a partner, the original partnership is dissolved. To avoid the application of Clayton's Rule, where subsequent credits would absolve the retiring partner of their share of the debt, the bank must freeze the old account. This crystallizes the liability of the old firm (including the retiring partner) at ₹2 lakhs and a new account should be opened.

Oct/Nov 2013

53. A Public Limited Company has an account with authorised signatories being any two of its five directors. One of the directors, Mr. Verma, who had signed several cheques, passes away. The bank is presented with a cheque for payment that was signed by Mr. Verma and another director before his death. What should the bank do?
(A) Return the cheque with the reason 'Signatory Deceased'.
(B) Ask the company to issue a fresh cheque signed by two living directors.
(C) Pay the cheque, as the company's mandate remains valid.
(D) Pay the cheque only after obtaining a fresh board resolution.

Ans :

(C) Pay the cheque, as the company's mandate remains valid.
A company is a distinct legal entity, separate from its directors. An authorised signatory signs on behalf of the company. The death of a signatory does not invalidate the company's mandate or the instruments it has issued. Therefore, the bank should honour the cheque as it was validly signed as per the operating instructions on record.

May/June 2019

54. XYZ Corp. has credit facilities from a consortium of banks (all lenders). Total exposure is ₹40 crore. It has a Cash Credit (CC) account with Bank A, which has a 25% share of the exposure. XYZ Corp. now wants to open a new account with Bank B, which is NOT part of the lending consortium. What type of account can Bank B open for XYZ Corp.?
(A) A regular current account.
(B) Bank B is not permitted to open any account.
(C) A collection account.
(D) An escrow account.

Ans :

(B) Bank B is not permitted to open any account.
The borrower's exposure is ₹40 crore, which is over the ₹5 crore threshold, and they have a CC facility. In this scenario, the borrower can maintain a current account with a lender having at least 10% exposure (Bank A qualifies). Other lending banks can open collection accounts. However, non-lending banks, like Bank B, are not permitted to open any account.

Oct/Nov 2005

55. Mrs. Devi, an illiterate person, has a savings account. She visits the bank with her neighbour to withdraw ₹5,000. She provides her passbook and her left thumb impression on the withdrawal form. What is the final step the bank official must complete before handing over the cash?
(A) Get the neighbour's signature as a witness on the withdrawal form.
(B) Issue a cheque book to Mrs. Devi for future transactions.
(C) Take a photograph of Mrs. Devi for the bank's records.
(D) Orally confirm the withdrawal amount with Mrs. Devi.

Ans :

(D) Orally confirm the withdrawal amount with Mrs. Devi.
A key procedural safeguard for transactions in an illiterate person's account is that every withdrawal must be orally confirmed by the account holder to the authorized bank official. This is to ensure that the customer is fully aware of the amount being debited from her account, protecting her from potential fraud by any person assisting her.

May/June 2023

56. Which of the following is NOT required when obtaining photographs for account opening?
(A) Photocopies of an Officially Valid Document (OVD) with a photograph, as a substitute for a separate photograph.

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(B) Photographs of all persons authorised to operate an institutional or company account.
(C) A recent photograph of the 'Karta' for opening a Hindu Undivided Family (HUF) account.
(D) A photograph of a minor aged 10 years and above for opening a self-operated savings bank account.

Ans :

(A) Photocopies of an Officially Valid Document (OVD) with a photograph, as a substitute for a separate photograph.
The rules explicitly state that photographs are not a substitute for specimen signatures and that photocopies of an OVD with a photograph would not suffice in place of actual photographs. Banks must obtain recent, separate photographs. However, if a live photograph is captured during a digital KYC process, a separate physical photograph is not required.

Oct/Nov 2009

57. What is the structure of a Legal Entity Identifier (LEI) code?
(A) A 10-digit numeric code.
(B) An 11-digit alpha-numeric code.
(C) A 20-digit alpha-numeric code.
(D) A 15-digit code with the first 4 characters representing the country.

Ans :

(C) A 20-digit alpha-numeric code.
The Legal Entity Identifier (LEI) is a global standard for identifying parties to financial transactions. It is a unique 20-digit alpha-numeric code. This standardized identifier helps improve the quality and accuracy of financial data systems, which is crucial for better risk management and monitoring systemic risks in the financial market.

May/June 2017

58. In India, which entity is accredited by the Global Legal Entity Identifier Foundation (GLEIF) to issue LEI codes?
(A) Legal Entity Identifier India Ltd. (LEIL).
(B) Reserve Bank of India (RBI).
(C) Securities and Exchange Board of India (SEBI).
(D) Clearing Corporation of India Limited (CCIL).

Ans :

(A) Legal Entity Identifier India Ltd. (LEIL).
While entities can obtain an LEI from any accredited Local Operating Unit (LOU) globally, the specific entity in India for this purpose is Legal Entity Identifier India Ltd. (LEIL). LEIL, a subsidiary of the Clearing Corporation of India Limited (CCIL), has been accredited by GLEIF to act as an LOU for issuing and managing LEI codes.

Oct/Nov 2022

59. For which of the following transactions has the LEI system been introduced for non-individual entities for values of ₹50 crore and above?
(A) All cash deposit and withdrawal transactions at the counter.
(B) All payment transactions done through the UPI interface.
(C) All international trade finance and forex transactions.
(D) Transactions undertaken using RTGS and NEFT.

Ans :

(D) Transactions undertaken using RTGS and NEFT.
To improve tracking of large-value transactions, the LEI system has been made mandatory for all payment transactions of ₹50 crore and above undertaken by non-individual entities. This requirement specifically applies to transactions conducted through the Reserve Bank-run Centralised Payment Systems, namely Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT).

May/June 2012

60. With effect from October 1, 2022, AD Category I banks are required to obtain the LEI number from resident non-individual entities for which type of transactions under FEMA, 1999?
(A) Any cross-border transaction exceeding a value of ₹1 crore.
(B) Capital or current account transactions of ₹50 crore and above per transaction.
(C) Only capital account transactions of ₹10 crore and above per transaction.
(D) All cross-border transactions, irrespective of the transaction amount.

Ans :

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(B) Capital or current account transactions of ₹50 crore and above per transaction.

To harness the benefits of the LEI system in the forex market, the RBI has mandated that Authorised Dealer (AD) Category I banks must obtain the LEI number from resident entities (non-individuals). This rule applies to both capital and current account transactions valued at ₹50 crore and above on a per-transaction basis, governed under FEMA, 1999.

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CHAPTER 5

Operational Aspects of Deposit Accounts

Oct/Nov 2018

1. According to the fundamental purpose of a current account, for which type of customer is it primarily designed?

(A) Individuals seeking to earn high interest on their long-term surplus funds.

(B) Traders, business people, and entrepreneurs for frequent financial transactions.

(C) Salaried employees for receiving monthly income and making limited payments.

(D) Minors and students learning to manage their personal finances and savings.

Ans :

(B) Traders, business people, and entrepreneurs for frequent financial transactions.

A current account is specifically a transactional account designed to facilitate a high volume of regular financial transactions typical for businesses, traders, and entrepreneurs. It is intended for day-to-day business needs and parking operational surplus funds, rather than for savings or investment purposes, and hence, generally no interest is paid on these deposits.

May/June 2007

2. Which of the following categories is explicitly prohibited from opening a current account?

(A) Illiterate persons

(B) Limited Liability Partnerships

(C) Cooperative Societies

(D) Sole Proprietary Concerns

Ans :

(A) Illiterate persons

The operational nature of a current account, which involves frequent transactions and cheque-based operations, makes it unsuitable for individuals who cannot read or write. The text specifies that current accounts cannot be opened by minors (unless operated by a guardian), Pardanashin women, illiterate persons, and blind persons, due to the inherent risks and complexities involved.

Oct/Nov 2014

3. What is a key pre-requisite for a bank to grant a Temporary Overdraft (TOD) in a current account?

(A) The customer must provide tangible collateral security equivalent to the full TOD amount.

(B) The account must have been operative with a satisfactory track record for a minimum of five years.

(C) The customer must furnish a formal written request and a Demand Promissory Note.

(D) The customer must be a preferential shareholder or a long-term depositor of the bank.

Ans :

(C) The customer must furnish a formal written request and a Demand Promissory Note.

A Temporary Overdraft (TOD) is a short-term credit facility extended to trustworthy customers based on specific provisions. To avail this facility, the account holder is required to submit a formal written request to the bank. Additionally, a Demand Promissory Note must be furnished as a legal undertaking to repay the overdrawn amount on demand.

May/June 2019

4. Regarding interest rates on Savings Bank deposits, what has the RBI mandated for balances up to ₹1 lakh?

(A) Banks must offer a floating rate of interest linked to the repo rate.

(B) Banks can offer differential interest rates based on customer category.

(C) Interest rates must be approved by the Indian Banks' Association (IBA).

(D) Banks must offer a uniform interest rate, irrespective of the amount within this limit.

Ans :

(D) Banks must offer a uniform interest rate, irrespective of the amount within this limit.

The Reserve Bank of India has deregulated the interest rates on Savings Bank deposits, but

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with specific conditions. For deposits up to ₹1 lakh, every bank is required to offer a single, uniform interest rate. This ensures that small depositors receive a standard rate without any discrimination based on the exact balance held within this slab.

Oct/Nov 2006

5. Which of the following entities is generally prohibited from opening a savings bank account?
(A) Karta of a Hindu Undivided Family (HUF)
(B) A minor aged above 10 years, operating the account independently
(C) A political party or a professional concern like a partnership firm
(D) An individual in a joint account with two or more persons

Ans :

(C) A political party or a professional concern like a partnership firm
Banks are prohibited from opening savings accounts in the name of entities whose transactions are primarily commercial or business-related. This includes government departments dependent on budgetary allocations, municipal corporations, political parties, and any trading, business, or professional concern like a proprietary or partnership firm, as these are expected to use current accounts for their operations.

May/June 2021

6. Based on Table 5.1 titled "Organisations for which Savings Bank Account is Permitted by RBI," which of the following is an eligible entity?
(A) State Text Book Publishing Corporations
(B) Companies licensed under Section 8 of the Companies Act, 2013
(C) State Co-operative Societies Acts-registered societies for general purposes
(D) Metropolitan Development Authority

Ans :

(B) Companies licensed under Section 8 of the Companies Act, 2013
Table 5.1 provides a specific list of organizations permitted by the RBI to open savings bank accounts. Among the options, only companies licensed under Section 8 of the Companies Act, 2013 (or corresponding previous acts) are explicitly mentioned as eligible. The other entities listed are generally part of the prohibited category for opening savings accounts.

Oct/Nov 2010

7. What is the minimum notice period a bank must provide to a customer before recovering penal charges for non-maintenance of minimum balance in a savings account?
(A) 7 days
(B) 15 days
(C) Three months
(D) One month

Ans :

(D) One month
When a savings account balance falls below the stipulated minimum, the bank must provide the customer with a notice via SMS, email, or letter. This notice should state the shortfall and specify that if it is not regularized within one month from the date of the notice, penal charges will be recovered for the persisting shortfall.

May/June 2005

8. What is a key restriction placed on staff accounts to prevent misuse?
(A) Third-party cheques and Demand Drafts should not be collected in a staff account.
(B) Staff members are prohibited from opening joint accounts with non-staff family members.
(C) The number of free cash withdrawals from a staff account is limited to five per month.
(D) Staff accounts cannot be used for receiving any credits other than their own salary.

Ans :

(A) Third-party cheques and Demand Drafts should not be collected in a staff account.
To maintain financial discipline and prevent potential misuse, specific restrictions are applied to staff accounts. One significant rule is that third-party cheques and Demand Drafts should not be collected in these accounts. This measure helps in ensuring that the account is used primarily for the staff member's personal transactions and not as a conduit for others.

Oct/Nov 2022

9. What is the minimum number of free withdrawals that must be offered per month in a Basic Savings Bank Deposit Account (BSBDA)?
(A) Two withdrawals, including ATM withdrawals.

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(B) Six withdrawals, only at the home branch.
(C) Four withdrawals, including ATM withdrawals.
(D) Unlimited withdrawals, but only through ATMs.

Ans :

(C) Four withdrawals, including ATM withdrawals.
A Basic Savings Bank Deposit Account (BSBDA) is designed for financial inclusion and comes with a set of minimum free services. This includes a minimum of four withdrawals in a month, which covers transactions made through any channel, including ATM withdrawals at the bank's own ATMs as well as those of other banks.

May/June 2018

10. A person holding a BSBDA wants to open another savings account in the same bank. What is the regulation regarding this?
(A) The person is not eligible to open any other savings account in that bank.
(B) It is permitted if the new account is a joint account.
(C) It is permitted, but the BSBDA will be converted to a regular savings account.
(D) The person must maintain a minimum balance of ₹10,000 in the BSBDA.

Ans :

(A) The person is not eligible to open any other savings account in that bank.
To ensure the BSBDA serves its intended purpose for basic banking needs, a holder is not eligible to open any other savings bank account in the same bank. If a customer has an existing savings account, it must be closed within 30 days of opening the BSBDA, reinforcing the principle of one basic account per person per bank.

Oct/Nov 2016

11. What is the minimum period for which a Fixed Deposit can be accepted by a bank?
(A) 30 days
(B) 15 days
(C) 46 days
(D) 7 days

Ans :

(D) 7 days
Fixed Deposits are term deposits accepted for a specific period as requested by the customer. While the maximum period is normally 120 months (10 years), there is a regulatory minimum tenor. Banks are permitted to accept Fixed Deposits for a minimum period of 7 days, providing flexibility for very short-term investment needs of depositors.

May/June 2014

12. As per RBI categorization, what is the threshold for a fixed deposit to be classified as a 'Bulk Deposit' in a Regional Rural Bank (RRB)?
(A) Deposits of ₹1 crore and above.
(B) Deposits of ₹15 lakh and above.
(C) Deposits of ₹2 crore and above.
(D) Deposits of ₹50 lakh and above.

Ans :

(B) Deposits of ₹15 lakh and above.
The Reserve Bank of India defines 'Bulk Deposits' differently for various types of banks to allow for differential interest rates. For Regional Rural Banks (RRBs), fixed deposits of ₹15 lakh and above are categorized as 'Bulk Deposits'. This is distinct from the threshold of ₹2 crore applicable to scheduled commercial banks and small finance banks.

Oct/Nov 2007

13. A customer's Term Deposit of ₹50,000 matures and the proceeds remain unpaid with the bank. The contracted interest rate was 6.0% p.a., and the bank's current savings account interest rate is 2.7% p.a. At what rate will interest be paid on this unclaimed amount?
(A) 6.0% p.a., as it was the contracted rate.
(B) 2.7% p.a., as it is the savings account rate.
(C) 2.7% p.a., as it is the lower of the two rates.
(D) No interest will be paid as the deposit is overdue.

Ans :

(C) 2.7% p.a., as it is the lower of the two rates.
When a term deposit matures and the amount is left unclaimed, the bank is liable to pay interest on the outstanding sum. The applicable interest rate is the rate for a savings account or the contracted rate on the matured deposit, whichever is lower. In this case, 2.7% is lower than 6.0%, so interest will be paid at 2.7% p.a.

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May/June 2025

14. What condition must be met for a bank to allow the splitting of a joint term deposit into individual deposits for each holder?

(A) The request must be made before the deposit completes half of its tenure.

(B) A penalty for premature withdrawal must be paid by all joint holders.

(C) The new individual deposits must be opened for a longer duration.

(D) The period and the aggregate amount of the deposits must not undergo any change.

Ans :

(D) The period and the aggregate amount of the deposits must not undergo any change.

Banks may, at their discretion and upon the request of all joint account holders, permit the splitting of a joint deposit. However, this is subject to a crucial condition: the original tenor and the total combined value of the new individual deposits must remain identical to the original joint deposit, ensuring the bank's liability does not change.

Oct/Nov 2019

15. Which type of deposit is described as the reverse of a Recurring Deposit, where the principal amount is returned to the customer in periodical installments?

(A) Annuity Deposit

(B) Cash Certificate

(C) Certificate of Deposit

(D) Hybrid Deposit

Ans :

(A) Annuity Deposit

An Annuity Deposit functions as the reverse of a Recurring Deposit. Instead of making periodic payments to the bank, the customer deposits a lump sum, and the bank then returns this principal amount, along with interest, in periodic installments (e.g., monthly or quarterly) over the specified tenure of the deposit, providing a regular income stream.

May/June 2009

16. Identify the incorrect statement regarding the features of a Certificate of Deposit (CD).

(A) CDs can be issued by Scheduled Commercial Banks, RRBs, and Small Finance Banks.

(B) CDs are issued in physical form only, in denominations of ₹1 lakh.

(C) The minimum tenor for a CD is 7 days and the maximum is 1 year.

(D) The issuance of CDs attracts stamp duty.

Ans :

(B) CDs are issued in physical form only, in denominations of ₹1 lakh.

Certificates of Deposit (CDs) are short-term, negotiable money market instruments. They are issued in dematerialized form in denominations of ₹5 lakh, with a minimum deposit size of ₹5 lakh. The statement that they are issued in physical form in ₹1 lakh denominations is incorrect, as the rules mandate dematerialized issuance and a higher minimum amount.

Oct/Nov 2011

17. How should interest be calculated for a domestic term deposit that is repayable in less than three months?

(A) Interest should be calculated and compounded on a monthly basis for the full period.

(B) Interest should be paid proportionately for the actual number of days, reckoning a year as 365 days.

(C) A flat interest rate for the entire period should be applied without any pro-rata daily calculation.

(D) Interest should be calculated based on a 360-day year as per standard international banking practice.

Ans :

(B) Interest should be paid proportionately for the actual number of days, reckoning a year as 365 days.

As per the Indian Banks' Association (IBA) prescription for domestic term deposits, when the deposit is repayable in less than three months or has an incomplete terminal quarter, interest should not be compounded. Instead, it must be calculated proportionately for the actual number of days the deposit is held, using a 365-day year basis.

May/June 2010

18. What happens to the interest rate of a deposit account when its branch is transferred from one bank to another due to a takeover in a rural centre?

(A) The original rate of interest as per the contract continues to be payable until the

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deposit's maturity.
(B) The interest rate is immediately revised downward or upward to match the rates of the new bank.
(C) The interest rate is subject to renegotiation between the customer and the new bank's management.
(D) The account stops earning any interest until the customer provides fresh KYC and instructions.

Ans :

(A) The original rate of interest as per the contract continues to be payable until the deposit's maturity.
When deposit accounts are transferred between banks due to a takeover, especially in rural and semi-urban areas, the terms of the original contract are protected. The deposit account continues to be governed by the initial agreement, and the same rate of interest that was payable at the time of the takeover remains applicable until the deposit's maturity date.

Oct/Nov 2024

19. In the event of the death of a sole proprietor, at what rate should interest be paid on the credit balance in the firm's current account?
(A) No interest is payable as it is a non-interest-bearing current account.
(B) At the contracted overdraft rate applicable to the account, if any.
(C) At the rate applicable to a savings bank account as on the date of final payment.
(D) At the highest term deposit rate currently offered by the bank for a one-year tenure.

Ans :

(C) At the rate applicable to a savings bank account as on the date of final payment.
While current accounts normally do not earn interest, an exception is made in the case of a deceased individual or sole proprietor. From the date of death until the date of repayment to the claimant(s), interest is paid on the balance. This interest is calculated at the rate applicable to savings bank deposits on the payment date.

May/June 2017

20. For which of the following deposit schemes is the facility of offering differential interest rates on "bulk deposits" not applicable?
(A) Deposits under the Capital Gains Accounts Scheme, 1988.
(B) Standard fixed deposits of 5 years.
(C) Reinvestment deposits.
(D) Non-callable term deposits.

Ans :

(A) Deposits under the Capital Gains Accounts Scheme, 1988.
While banks can offer different interest rates for bulk deposits, this provision does not apply to all types of deposits. Specifically, deposits accepted under special government-notified schemes like the Term Deposit Scheme, 2006, and the Capital Gains Accounts Scheme, 1988, are excluded from this differential rate structure for bulk amounts.

Oct/Nov 2005

21. Under what circumstance is no interest paid on a term deposit that is withdrawn prematurely?
(A) If the withdrawal occurs within the first month of the deposit.
(B) If the deposit amount is below ₹1 lakh.
(C) If the deposit was made without a nomination.
(D) If the premature withdrawal takes place before the completion of 7 days.

Ans :

(D) If the premature withdrawal takes place before the completion of 7 days.
Premature withdrawal of a term deposit is generally permitted but subject to certain rules. A key rule states that if the deposit is withdrawn before it completes the minimum required period of 7 days, no interest whatsoever shall be paid to the depositor. The depositor will only receive the principal amount back.

May/June 2020

22. What is the maximum additional interest rate per annum that banks are generally permitted to pay on deposits from their staff members?
(A) 0.50% p.a.
(B) 1.00% p.a.
(C) 1.50% p.a.
(D) 2.00% p.a.

Ans :

(B) 1.00% p.a.
As a staff welfare measure, banks are permitted, at their discretion, to offer a higher rate of interest on deposits from their staff and certain executives. The additional interest is capped at 1% per annum over and above the rate applicable

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to the general public for the same type of deposit, including SB, TD, and RD.

Oct/Nov 2015

23. What is the typical additional interest rate that banks offer to resident Indian senior citizens on their deposits?
(A) A fixed 1.0% per annum on all deposits.
(B) A rate determined by the Indian Banks' Association for all senior citizens.
(C) An additional rate of 0.25% or 0.5% per annum at the bank's discretion.
(D) A rate equivalent to the staff interest rate benefit.

Ans :

(C) An additional rate of 0.25% or 0.5% per annum at the bank's discretion.
Banks are permitted to offer a higher rate of interest to resident Indian senior citizens on their deposits of any size. While the exact differential rate is at the discretion of the individual bank's board-approved policy, it is usually 0.25% or 0.5% per annum over and above the card rates offered to the general public.

May/June 2013

24. What is the rule for crediting interest on a savings bank account that has become inoperative?
(A) Interest credit is completely stopped once the account is classified as inoperative.
(B) A reduced, non-preferential rate of interest applies to all inoperative accounts.
(C) Interest is calculated but held in a separate internal suspense account by the bank.
(D) Interest must be credited on a regular basis, irrespective of the account's operative status.

Ans :

(D) Interest must be credited on a regular basis, irrespective of the account's operative status.
The status of an account as operative or inoperative does not affect its entitlement to interest. Banks are required to continue calculating and crediting interest to savings bank accounts on a regular basis as per the prevailing norms, even if the account has been classified as inoperative due to a lack of customer-induced transactions.

Oct/Nov 2021

25. A customer's Term Deposit of ₹2,00,000, held in an account frozen by an enforcement authority, matures. The bank does not receive a renewal request from the depositor. What action should the bank take?
(A) Renew the deposit for a term equal to that of the original term.
(B) Transfer the proceeds to the enforcement authority immediately.
(C) Pay the proceeds to the customer as the deposit has matured.
(D) Hold the proceeds in an interest-free account until further notice.

Ans :

(A) Renew the deposit for a term equal to that of the original term.
For term deposits in frozen accounts that mature, if the bank does not receive a renewal request from the depositor, it may renew the deposit. The renewal term should be for a period equal to the original term of the deposit. The bank must also advise the enforcement authority and the depositor about this auto-renewal.

May/June 2024

26. Which of the following practices is a prohibited method for deposit mobilization by banks?
(A) Offering an additional preferential interest rate of 0.5% to senior citizens.
(B) Offering a lottery or free trip with an element of chance to attract new depositors.
(C) Paying a pre-approved commission to a Business Correspondent for sourcing new deposits.
(D) Granting loans and advances against term deposits maintained with the same bank.

Ans :

(B) Offering a lottery or free trip with an element of chance to attract new depositors.
Banks are strictly prohibited from engaging in practices that use an element of chance to mobilize deposits. This includes offering prizes, lotteries, or free trips (in India or abroad). However, giving inexpensive gifts costing not more than ₹250 at the time of accepting deposits is permitted, but larger incentive schemes are not allowed.

Oct/Nov 2008

27. A bank is prohibited from granting an advance against which type of security?
(A) A term deposit maintained with one of its own branches.

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(B) A recurring deposit account held with the same bank.
(C) National Savings Certificates (NSCs).
(D) A term deposit maintained with another bank.

Ans :

(D) A term deposit maintained with another bank.
While banks commonly grant loans and advances against the security of their own term deposits, they are explicitly prohibited from granting advances against term deposits that are maintained with other banks. This restriction is in place to manage credit risk and prevent complexities arising from cross-bank lien and security arrangements for such deposits.

May/June 2006

28. The interest rate provisions for domestic deposits are not applicable to which of the following?
(A) Deposits received under the Certificate of Deposit (CD) Scheme
(B) Recurring Deposit accounts
(C) Savings Bank accounts of individuals
(D) Fixed Deposits of senior citizens

Ans :

(A) Deposits received under the Certificate of Deposit (CD) Scheme
The regulatory norms related to interest rates on domestic deposits do not apply to certain specific instruments. Certificates of Deposit (CDs) are one such exception. As negotiable money market instruments, their interest rates are market-driven and not governed by the standard regulations applicable to regular savings or term deposits accepted by the bank.

Oct/Nov 2017

29. A savings or current account is treated as inoperative or dormant if there are no transactions in the account for a continuous period of:
(A) More than six months
(B) More than one year
(C) Over two years
(D) Over three years

Ans :

(C) Over two years
An account is classified as inoperative or dormant when there are no customer-induced transactions for an extended period. The standard timeframe for this classification for both Savings Bank (SB) and Current Accounts (CA) is a period of over two years. Bank-induced transactions like interest credits or service charge debits are not considered for this purpose.

May/June 2008

30. Which of the following transactions would prevent a savings account from being classified as inoperative?
(A) A third-party credit transaction into the account.
(B) Automatic credit of periodic interest by the bank.
(C) Debiting of annual service charges by the bank.
(D) Automatic debiting of locker rent as per a standing instruction.

Ans :

(A) A third-party credit transaction into the account.
For an account to remain operative, it must have customer-induced transactions. This includes debits and credits initiated by the customer or a third party. Transactions initiated by the bank itself, such as crediting interest or debiting service charges, are not considered customer-induced and therefore do not prevent an account from becoming inoperative.

Oct/Nov 2013

31. Which of the following accounts, even if dormant, should not be transferred to an "Inoperative accounts status"?
(A) A savings account with a large credit balance.
(B) A current account of a firm that has ceased operations.
(C) An individual's savings account with no nominee.
(D) An account showing a debit balance.

Ans :

(D) An account showing a debit balance.
Certain categories of accounts are exempt from being classified as inoperative, even if they lack regular transactions. An account that is showing a debit balance (i.e., it is overdrawn) is one such exception. Other exceptions include accounts with operations stopped by a court order or those under a lien for an advance.

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May/June 2015

32. According to the Depositor Education and Awareness Fund (DEAF) Scheme, 2014, when must banks transfer the credit balance of an account that has been inoperative for ten years or more?

(A) Within one month from the expiry of ten years.
(B) Within three months from the expiry of ten years.
(C) Within six months from the expiry of ten years.
(D) At the end of the financial year in which the ten-year period expires.

Ans :

(B) Within three months from the expiry of ten years.
The DEAF Scheme mandates that banks transfer the credit balances from accounts that have remained unclaimed or inoperative for a period of ten years or more. This transfer to the Fund, established by the RBI, must be completed within a period of three months from the end of the month in which the ten-year period is completed.

Oct/Nov 2012

33. What is the rate of interest payable by banks to claimants on the amount transferred to the Depositor Education and Awareness Fund (DEAF), effective from 11th May 2021?

(A) 4.0% simple interest p.a.
(B) The prevailing savings bank rate.
(C) 3.0% simple interest p.a.
(D) The repo rate as on the date of claim.

Ans :

(C) 3.0% simple interest p.a.
When a depositor or claimant makes a valid claim for an amount that has already been transferred to the DEAF, the bank pays the amount and then claims a refund from the Fund. The interest payable on such claims is at a specific rate determined by the RBI. Effective 11th May 2021, this rate is 3.0% simple interest per annum.

May/June 2011

34. An account where cheques are frequently drawn for amounts exceeding the available balance, resulting in multiple returns, is classified as:

(A) An unremunerative account
(B) An inoperative account
(C) A frozen account
(D) An undesirable account

Ans :

(D) An undesirable account
Undesirable accounts are those that pose an operational risk or inconvenience to the bank. A primary characteristic of such an account is the frequent issuance of cheques that are dishonored due to insufficient funds, without any prior arrangement for an overdraft. Banks are advised to monitor and potentially close such accounts after issuing notices.

Oct/Nov 2020

35. In a joint account with the operating instruction "Jointly" without a survivorship clause, what happens upon the death of one account holder?

(A) Operations are stopped, and the balance is payable to the survivors and legal heirs of the deceased.
(B) The surviving account holders can continue to operate the account.
(C) The balance is payable to the nominee registered for the account.
(D) The account is automatically converted to an "Either or Survivor" account.

Ans :

(A) Operations are stopped, and the balance is payable to the survivors and legal heirs of the deceased.
When a joint account is operated "Jointly" and lacks a survivorship clause, the mandate requires the consent of all holders for any transaction. Upon the death of one holder, their rights pass to their legal heirs, not the survivors. Consequently, the bank must stop all operations and pay the balance jointly to the surviving account holders and the legal heirs of the deceased.

May/June 2022

36. Which mode of operation is typically used for a joint account of two persons where either of them can operate the account, and the survivor can operate it after the death of the other?

(A) Former or Survivor
(B) Either or Survivor
(C) Jointly
(D) Anyone or Survivor

Ans :

(B) Either or Survivor

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The "Either or Survivor" (E or S) mandate is specifically designed for a two-person joint account. It allows either of the two account holders to operate the account independently during their joint lifetimes. In the event of the death of one holder, the mandate automatically allows the survivor to continue operating the account or receive the balance.

Oct/Nov 2023

37. What is the procedure if a joint account is opened, but no specific operating instructions are provided on the account opening form?
(A) The account must be operated as "Either or Survivor" by default.
(B) The account must be opened with a "Jointly" mode of operation.
(C) The bank should refuse to open the account until instructions are given.
(D) The first-named applicant becomes the sole operator of the account.

Ans :

(B) The account must be opened with a "Jointly" mode of operation.
Banks must insist on clear operating instructions for joint accounts. However, if an account is opened and it is later discovered that no instructions were specified, the default and safest mode of operation is "Jointly". This ensures that all transactions require the consent of all account holders, protecting both the customers' and the bank's interests.

May/June 2016

38. When a resident individual opens a joint account with a Non-Resident Indian (NRI) close relative, what must be the mandatory mode of operation?
(A) Either or Survivor
(B) Jointly
(C) Former or Survivor
(D) Anyone or Survivor

Ans :

(A) Either or Survivor
Joint accounts between a resident and an NRI close relative are permitted under specific norms. One of the key conditions for such accounts is that the mode of operation must be "Either or Survivor". This allows operational flexibility while ensuring the account is treated as a resident account for regulatory purposes during the lifetime of both holders.

Oct/Nov 2009

39. To convert an existing single account into a joint account, what is required from the existing account holder?
(A) A court order authorizing the addition of new holders.
(B) A new account opening form signed by all proposed holders.
(C) A letter stating the purpose, relationship, and attesting the new person's signature.
(D) Closing the single account and opening a fresh joint account.

Ans :

(C) A letter stating the purpose, relationship, and attesting the new person's signature.
The process to convert a single account to a joint account involves the existing account holder providing a formal letter. This letter should specify the reason for conversion, declare the relationship with the proposed new joint holder(s), and attest their specimen signatures. Additionally, KYC documents for the new persons must also be obtained.

May/June 2023

40. The nomination facility for bank accounts was introduced through an amendment to the Banking Regulation Act, 1949, by which specific sections?
(A) Sections 45 ZA to ZF
(B) Sections 21 and 35A
(C) Sections 10 and 12
(D) Sections 49 A and 49 B

Ans :

(A) Sections 45 ZA to ZF
The facility for bank customers to nominate a person to receive their deposits in the event of their death was formally introduced by the Banking Laws (Amendment) Act, 1983. This amendment added new sections 45 ZA to 45 ZF to the Banking Regulation Act, 1949, providing the legal framework for nomination in deposit accounts, safe custody, and lockers.

Oct/Nov 2025

41. Which form is prescribed for making a new nomination for a deposit account?
(A) Form DA-2
(B) Form DA-3
(C) Form DA-4
(D) Form DA-1

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Ans :

(D) Form DA-1

The Banking Companies (Nominations) Rules, 1985, prescribe specific forms for nomination-related activities. Form DA-1 is the designated format that depositors must use to make a fresh nomination for their deposit accounts. Form DA-2 is used for cancellation, and Form DA-3 is used for variation or change of an existing nomination.

May/June 2012

42. In which of the following types of accounts is nomination NOT permitted?

(A) A current account held in the name of a sole proprietary concern.

(B) An account held by an individual in a representative capacity, such as a director of a company.

(C) A joint savings account held by two or more individuals with survivorship mandate.

(D) A term deposit account opened in the name of a minor operated by a guardian.

Ans :

(B) An account held by an individual in a representative capacity, such as a director of a company.

Nomination is a facility for individuals in their personal capacity or for sole proprietary concerns. It is not permitted for deposits held in a representative capacity. This is because the funds in such accounts do not belong to the individual personally but to the entity they represent, like a company, association, or firm.

Oct/Nov 2018

43. Assertion (A): Only one individual can be made a nominee for a particular deposit account.

Reason (R): To nominate multiple persons for a single deposit, the depositor must split the deposit into smaller deposits with separate nominations for each.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(D) (A) is false but (R) is true.

The assertion that only one individual can be a nominee is false. The text clarifies that if a depositor wishes to nominate more than one person, they may be permitted to split the deposit in the desired proportion. This splitting does not constitute foreclosure. The reason correctly describes one method to achieve this, making it a true statement.

May/June 2007

44. Who is authorized to make a nomination in a minor's savings account that is operated by a guardian?

(A) The minor himself/herself.

(B) A court-appointed official.

(C) No nomination is permitted in such accounts.

(D) The guardian authorized to operate the account.

Ans :

(D) The guardian authorized to operate the account.

When a minor's account is operated by a guardian, the legal authority to act on behalf of the minor rests with that guardian. Therefore, the nomination for the account must also be made by the guardian who is authorized to operate it. A minor who is not operating the account independently cannot make a nomination.

Oct/Nov 2014

45. What is the legal standing of a nominee after receiving the proceeds of a deceased depositor's account?

(A) The nominee holds the funds as a trustee on behalf of the deceased's legal heirs.

(B) The nominee becomes the absolute and undisputed legal owner of the funds.

(C) The nominee must share the funds equally with the bank that made the payment.

(D) The nominee can use the funds only after obtaining a succession certificate or court order.

Ans :

(A) The nominee holds the funds as a trustee on behalf of the deceased's legal heirs.

Payment to the nominee gives the bank a valid discharge from its liability. However, the nominee does not acquire ownership rights over the money. The nominee's role is that of a trustee, holding the funds on behalf of the legal heirs or beneficiaries of the deceased's will, and

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is responsible for accounting for the money to them.

May/June 2019

46. Under the Indian Evidence Act, 1872, after what period of a person being reported missing can death be presumed for the purpose of settling claims?
(A) Three years
(B) Seven years
(C) Five years
(D) Ten years

Ans :

(B) Seven years
The settlement of claims for a missing person is governed by Sections 107 and 108 of the Indian Evidence Act, 1872. While a person is presumed to be alive for seven years from the date they were last heard of, death can be legally presumed only after a lapse of seven years from the date they were reported missing.

Oct/Nov 2006

47. If a savings bank account holder chooses to receive a statement of account instead of a passbook, what is the mandatory frequency for issuing these statements?
(A) Quarterly
(B) Half-yearly
(C) Annually
(D) Monthly

Ans :

(D) Monthly
While banks should invariably offer a passbook facility to all individual savings bank account holders, a customer may opt for a statement of account instead. In such cases where the customer chooses to receive statements, the bank is obligated to issue them on a monthly basis, and no charges should be recovered for this service.

May/June 2021

48. To ensure clarity and avoid confusion for customers, what information should be avoided in passbook or statement entries?
(A) Vague particulars like "by clearing" or inscrutable computer codes.
(B) The specific date and exact amount of the financial transaction.
(C) The full address, contact number, and operating hours of the branch.
(D) The MICR code, IFSC code, and SWIFT code of the home branch.

Ans :

(A) Vague particulars like "by clearing" or inscrutable computer codes.
Banks are instructed to ensure that entries in passbooks and statements are correct, legible, and intelligible. Vague entries such as "by clearing," "by cheque," or undecipherable computer codes should be avoided. Instead, brief and clear particulars of the transaction should be provided to help the customer easily understand their account activity.

Oct/Nov 2010

49. What is the validity period of a cheque from its date of issue?
(A) 6 months
(B) 1 month
(C) 3 months
(D) 12 months

Ans :

(C) 3 months
One of the crucial verification points before paying a cheque is its date. A cheque is considered valid for payment for a period of three months from the date written on it. A cheque presented after this period is considered "stale" and should not be paid by the bank.

May/June 2005

50. Consider the following procedure for payment of cheques: "All the alterations, if any, on the body of the cheque, are duly authenticated by the drawer. Under CTS, alteration is not allowed."
Based on this, what is the rule for alterations on a cheque presented under the Cheque Truncation System (CTS)?
(A) No alterations are allowed on the body of the cheque.
(B) All alterations are permitted if authenticated by the drawer's full signature.
(C) Only alterations in the amount in figures are permitted.
(D) Alterations are allowed, but the cheque must be presented at the base branch.

Ans :

(A) No alterations are allowed on the body of the cheque.

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The provided text explicitly states a strict rule for cheques cleared through the Cheque Truncation System (CTS). While alterations on non-CTS cheques might be permissible if duly authenticated by the drawer, the rule for CTS cheques is absolute: no alterations are allowed on the body of the cheque, ensuring higher security and standardization.

Oct/Nov 2022

51. In the case of a joint account, who must sign the instructions to revoke a "Stop Payment" order?
(A) Any one of the joint account holders can sign the revocation.
(B) Only the account holder who initially issued the stop payment instruction.
(C) The first-named account holder in the account title is solely authorized.
(D) All the authorized signatories of the joint account must sign together.

Ans :

(D) All the authorized signatories of the joint account must sign together.
While any single joint account holder can issue a stop payment instruction for a cheque, revoking that instruction requires a higher level of consensus. To ensure all parties are in agreement to proceed with the payment, the instruction to revoke the stop payment order must be signed by all the authorized signatories of the joint account.

May/June 2018

52. During a financial year, a company's current account cheque for ₹1.5 crore is dishonored for the fourth time due to "insufficient funds." What is the mandatory action the bank must take as per the prescribed condition?
(A) The bank must immediately close the current account.
(B) No fresh cheque book would be issued for that account.
(C) The bank must charge a penal interest on the account.
(D) The bank must report the company to the credit information bureaus.

Ans :

(B) No fresh cheque book would be issued for that account.
To enforce financial discipline, a specific condition applies to the frequent dishonor of high-value cheques. If a cheque for ₹1 crore or above is dishonored for the fourth time in a financial year for want of sufficient funds, the bank must stop issuing any fresh cheque books for that account, effectively curtailing its cheque-drawing ability.

Oct/Nov 2016

53. A dishonored cheque must be returned or dispatched to the customer by the collecting bank promptly, and specifically within what timeframe?
(A) Within 7 working days.
(B) Within 48 hours.
(C) Within 24 hours.
(D) By the end of the next business day.

Ans :

(C) Within 24 hours.
Prompt communication of dishonor is crucial for the payee. The paying bank must return dishonored cheques as per clearing house rules. The collecting bank, upon receiving such a dishonored instrument, is required to dispatch it to its customer (the payee/holder) promptly and without delay, which is specified as being within 24 hours.

May/June 2014

54. A Garnishee Order is an attachment order issued by a court under which legal provision?
(A) Section 138 of the Negotiable Instruments Act, 1881
(B) Section 226(3) of the Income Tax Act, 1961
(C) Section 45ZA of the Banking Regulation Act, 1949
(D) Order 21, Rule 46 of the Civil Procedure Code

Ans :

(D) Order 21, Rule 46 of the Civil Procedure Code
A Garnishee Order is a specific type of court attachment order obtained by a judgment creditor to attach funds belonging to a judgment debtor that are held by a third party, such as a bank (the garnishee). The legal authority for issuing such an order is derived from Order 21, Rule 46 of the Civil Procedure Code.

Oct/Nov 2007

55. What is the difference between a Garnishee Order 'Nisi' and a Garnishee Order 'Absolute'?
(A) 'Nisi' is a preliminary order, while 'Absolute' is the final order to remit funds.

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(B) 'Nisi' attaches future credits, while 'Absolute' attaches the current balance.
(C) 'Nisi' applies to savings accounts, while 'Absolute' applies to current accounts.
(D) 'Nisi' is issued by the Income Tax Dept, while 'Absolute' is issued by a Civil Court.

Ans :

(A) 'Nisi' is a preliminary order, while 'Absolute' is the final order to remit funds.
A Garnishee Order is typically issued in two stages. The first is the 'Order Nisi', which is a preliminary order that directs the bank to stop payment and explain why the funds should not be attached. This is followed by the 'Order Absolute', which is the final, conclusive court order directing the bank to remit the attached funds to the court or judgment creditor.

May/June 2025

56. A bank receives a Garnishee Order for ₹50,000 in the name of Mr. A. The bank finds that Mr. A holds a joint account with his wife, Mrs. A, with the mandate 'Either or Survivor'. The balance is ₹80,000. What is the correct action for the bank?
(A) Attach the full ₹80,000 balance as the order amount is less than the available funds.
(B) The account cannot be attached as it is a joint account and the order is in a single name.
(C) Attach ₹40,000 from the account, assuming an equal 50% share belongs to Mr. A.
(D) Attach the specified ₹50,000 from the joint account as per the court order's amount.

Ans :

(B) The account cannot be attached as it is a joint account and the order is in a single name.
A Garnishee Order in a single name cannot attach funds in a joint account with an 'either or survivor' mandate. This is because the money in such an account does not constitute a clear debt owed by the bank solely to the judgment debtor. The bank must approach the court for withdrawal of such an order.

Oct/Nov 2019

57. A bank's "right to set-off" has what effect on a Garnishee Order?
(A) The bank's internal right to set-off is always subordinate to the court's Garnishee Order.
(B) The bank must seek the issuing court's explicit permission before exercising its right to set-off.
(C) The right to set-off can only be exercised after the full amount of the Garnishee Order is satisfied.
(D) The bank is not bound by the Garnishee Order if it has a prior and valid right to set-off.

Ans :

(D) The bank is not bound by the Garnishee Order if it has a prior and valid right to set-off.
The bank's right to set-off, which is the right to combine a customer's accounts to settle a debt owed to the bank, takes precedence over a Garnishee Order. If the bank has a prior and legally valid right to set-off (e.g., a lien on a deposit for a loan), it is not bound by the order and can inform the court of its priority claim.

May/June 2009

58. How does an attachment order issued by an Income Tax Officer under Section 226(3) of the Income Tax Act, 1961, differ from a Garnishee Order?
(A) It can attach debts due but not yet payable and also attaches any amounts received subsequently.
(B) It applies only to the cleared credit balance available at the exact moment the order is served.
(C) It is legally prohibited from attaching joint accounts under any circumstances whatsoever.
(D) It requires the bank to get the assessee's written consent before remitting any funds.

Ans :

(A) It can attach debts due but not yet payable and also attaches any amounts received subsequently.
Unlike a Garnishee Order, which typically attaches only the debt due or accruing at the time of service, an Income Tax attachment order has a wider scope. It can attach any debt due, debts that are due but not yet payable (like a term deposit yet to mature), and any money that the bank may subsequently hold for the assessee.

Oct/Nov 2011

59. Match the items in List-I with the corresponding items in List-II.
List-I (Account/Instruction)
P. Anyone or Survivor
Q. Former or Survivor
R. Jointly

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S. Either or Survivor

List-II (Operational Rule on Death of one Holder)

1. Operations stop; balance payable to survivors and legal heirs of deceased.
2. Survivor can operate the account.
3. The right to operate rests jointly with the survivors.
4. The survivor can operate the account only if the deceased was the first holder.

Code:

(A) P-3, Q-4, R-1, S-2
(B) P-2, Q-1, R-4, S-3
(C) P-3, Q-2, R-1, S-4
(D) P-1, Q-4, R-3, S-2

Ans :

(A) P-3, Q-4, R-1, S-2

P: In 'Anyone or Survivor', on death of one holder, the survivors must operate jointly. Q: In 'Former or Survivor', the survivor can operate only after the first holder's death. R: In 'Jointly' (without survivorship), operations stop. S: In 'Either or Survivor' (two holders), the survivor can continue to operate the account independently.

May/June 2010

60. Refer to the following provision: "On receipt of the second order of the Court which is called 'Order Absolute' the bank will have to remit the attached funds to the Court out of the account of the 'judgment debtor' with the bank."

What is the primary obligation of the bank upon receiving an 'Order Absolute'?

(A) To remit the attached funds from the judgment debtor's account directly to the court.
(B) To promptly inform the customer that their account has been attached by the court.
(C) To seek a detailed written explanation from the court regarding the basis for the attachment.
(D) To file a formal appeal against the court's decision to attach the customer's funds.

Ans :

(A) To remit the attached funds from the judgment debtor's account directly to the court.

The provided text clearly defines the bank's role upon receiving the 'Order Absolute'. This is the final stage of the garnishee process, and the bank's duty is no longer to hold the funds but to act on the court's final directive. The bank must remit the specified attached funds to the court for settlement of the judgment creditor's dues.

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CHAPTER 6

Operational Aspects of Handling Clearing/ Collection/Cash

May/June 2016

1. According to the evolution of cheque clearing systems, what was introduced to improve efficiency in the collection of outstation cheques by utilising Core Banking Solutions (CBS)?
(A) MICR-based Clearing
(B) Speed Clearing
(C) Cheque Truncation System (CTS)
(D) National Electronic Funds Transfer (NEFT)

Ans :

(B) Speed Clearing
Speed Clearing was introduced to enhance the efficiency of collecting outstation cheques. It leverages the Core Banking Solutions (CBS) infrastructure of banks, which avoids the physical movement of cheques to outstation centres for clearance. This system was a significant step towards faster realisation of funds for customers before the full implementation of the Cheque Truncation System.

Oct/Nov 2022

2. The legal framework for cheque truncation and e-cheques was established in 2002 through amendments to which set of Acts?
(A) The NI Act 1881, The IT Act 2000, and The Bankers' Book Evidence (BBE) Act 1891
(B) The NI Act 1881, The IT Act 2000, and The RBI Act 1934
(C) The Banking Regulation Act 1949, The IT Act 2000, and The BBE Act 1891
(D) The NI Act 1881, The Companies Act 2013, and The BBE Act 1891

Ans :

(A) The NI Act 1881, The IT Act 2000, and The Bankers' Book Evidence (BBE) Act 1891
To provide a robust legal foundation for the Cheque Truncation System (CTS) and electronic cheques, suitable amendments were made to three key legislative acts. These were The Negotiable Instruments (NI) Act, 1881, The Information Technology (IT) Act, 2000, and The Bankers' Book Evidence (BBE) Act, 1891, which collectively enabled the transition from physical to image-based clearing.

May/June 2008

3. What is the effective date from which the Cheque Truncation System (CTS) was introduced in India, eventually leading to the discontinuation of MICR-based cheque processing?
(A) April 1, 2012
(B) January 1, 2002
(C) February 1, 2008
(D) April 1, 2010

Ans :

(C) February 1, 2008
The Reserve Bank of India introduced the Cheque Truncation System (CTS) with effect from February 1, 2008. This marked the beginning of a phased migration from the traditional MICR-based physical cheque processing system to a more efficient, secure, and cost-effective image-based clearing mechanism. The system is now fully operational across the country.

Oct/Nov 2013

4. As defined in the Negotiable Instruments Act, 1881, what does the term 'truncation' signify in the context of the Cheque Truncation System?
(A) The physical destruction of the cheque by the paying bank after the payment has been successfully processed.
(B) The act of returning a dishonoured cheque with a corresponding return memo to the presenting bank.
(C) The conversion of a paper cheque into a direct electronic fund transfer instruction, bypassing the clearing system.
(D) The process of stopping the physical flow of a cheque by the presenting bank en-route to the paying bank.

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Ans :

(D) The process of stopping the physical flow of a cheque by the presenting bank en-route to the paying bank.
Truncation is defined as the process of stopping the physical movement of a cheque. In the CTS environment, the presenting bank captures an electronic image of the cheque and transmits it to the paying bank via the clearing house. This substitution of the physical instrument with its electronic image is the core concept of cheque truncation.

May/June 2021

5. Which of the following statements regarding the characteristics of the Cheque Truncation System (CTS) is incorrect?
(A) The paper cheque, after truncation, is kept in the custody of the bank that truncated it.
(B) Only the banks involved and the Clearing House are permitted to truncate a cheque.
(C) The addition of a digital signature by the truncating bank to the electronic image is mandatory.
(D) The electronic image substitutes the physical cheque from the point of truncation onwards.

Ans :

(C) The addition of a digital signature by the truncating bank to the electronic image is mandatory.
While digital signatures are used to ensure security and non-repudiation in the CTS process, the guidelines state that the addition of the digital signature of the truncating bank or Clearing House to the electronic image of the cheque is optional. All other statements accurately describe the fundamental characteristics of the Cheque Truncation System in India.

Oct/Nov 2010

6. One of the key benefits of CTS for banks is the elimination of MICR amount encoding and reconciliation differences. Why does this benefit occur?
(A) Because the physical cheques are now stored centrally by the RBI.
(B) Because both the MICR data and the cheque image data travel together in the same file.
(C) Because all cheques are standardized under CTS 2010, eliminating data variation.
(D) Because the paying bank re-verifies the amount from the physical cheque upon request.

Ans :

(B) Because both the MICR data and the cheque image data travel together in the same file.
In the Cheque Truncation System, the presenting bank captures the MICR line data and the cheque image simultaneously. Both sets of information are bundled and transmitted together electronically. This ensures that the data used for settlement (MICR data) and the visual confirmation (image) are perfectly synchronized, thereby eliminating reconciliation differences that could occur in older systems.

May/June 2014

7. For customers, a significant advantage of the Cheque Truncation System is the removal of certain charges within a grid. What charges are no longer applicable for cheques cleared within the same CTS grid?
(A) Cheque book issuance charges
(B) Stop payment charges
(C) Account maintenance charges
(D) Outstation cheque collection charges / Speed Clearing charges

Ans :

(D) Outstation cheque collection charges / Speed Clearing charges
CTS operates on a grid basis, treating all cheques drawn on branches within a specific grid as local cheques, regardless of the city. This removes geographical and jurisdictional constraints. Consequently, banks do not levy outstation cheque collection charges or Speed Clearing charges for instruments that are drawn and collected within the same CTS grid.

Oct/Nov 2005

8. The Cheque Truncation System in India is operated on a grid basis. Which of the following correctly pairs the CTS Grid with its respective Clearing House location?
(A) Northern Grid - Delhi; Western Grid - Mumbai; Southern Grid - Chennai
(B) Northern Grid - Kolkata; Western Grid - Mumbai; Southern Grid - Bengaluru
(C) Northern Grid - Delhi; Western Grid - Ahmedabad; Southern Grid - Hyderabad
(D) Northern Grid - Chandigarh; Western Grid - Pune; Southern Grid - Chennai

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Ans :

(A) Northern Grid - Delhi; Western Grid - Mumbai; Southern Grid - Chennai
The country is divided into three major grids for the operation of the Cheque Truncation System. Each grid is serviced by a separate Clearing House (CH). The Northern Grid's CH is located in Delhi, the Western Grid's CH is in Mumbai, and the Southern Grid's CH is in Chennai, facilitating efficient region-wise cheque processing.

May/June 2025

9. In the CTS process flow, what is the primary role of the 'Presenting Bank'?
(A) To make the final payment to the beneficiary after receiving the cheque image.
(B) To process the return file for unpaid instruments and send it to the Clearing House.
(C) To capture the MICR data and images of the cheque and transmit them to the Clearing House.
(D) To arrive at the net settlement position for all banks in the grid.

Ans :

(C) To capture the MICR data and images of the cheque and transmit them to the Clearing House.
The CTS process begins at the Presenting Bank. Its primary responsibility is to capture the data from the cheque's MICR band and create its electronic images. This consolidated data and image file is then digitally signed and transmitted to the respective Clearing House Interface (CHI) for further processing and routing to the paying bank.

Oct/Nov 2017

10. Within the CTS framework, what security measure is implemented to ensure the security, safety, and non-repudiation of data and images transmitted between banks?
(A) End-to-end Public Key Infrastructure (PKI)
(B) Two-Factor Authentication (2FA)
(C) Biometric verification at each stage
(D) A unique watermark embedded in each image

Ans :

(A) End-to-end Public Key Infrastructure (PKI)
To ensure the integrity and authenticity of the clearing process, end-to-end Public Key Infrastructure (PKI) has been implemented in CTS. This cryptographic system is used to digitally sign the cheque images and data files at various stages, ensuring security, safety, and non-repudiation of the information as it moves from the presenting bank to the clearing house and finally to the paying bank.

May/June 2009

11. What is the significance of the single-line endorsement printed on the back of a cheque at the time of scanning in the CTS process?
(A) It confirms the cheque has been paid.
(B) It acts as a digital signature of the presenting bank.
(C) It voids the cheque for any future physical presentation.
(D) It serves as the unique identifier for the instrument.

Ans :

(D) It serves as the unique identifier for the instrument.
During the scanning process, a single-line endorsement is printed on the reverse of each cheque. This endorsement contains unique information, including details about the presenting bank and the date of presentation. Its primary purpose is to serve as a unique identifier for that specific instance of the instrument's journey through the clearing system.

Oct/Nov 2024

12. When a cheque that was previously returned is re-presented for clearing under CTS, what is the correct procedure regarding the clearing endorsement?
(A) The original endorsement must be completely erased before re-scanning.
(B) A new endorsement should be placed in a different position to avoid overlapping the previous one.
(C) The cheque cannot be re-presented and a fresh cheque must be issued.
(D) The original presenting bank must mark "Re-Presented" over the old stamp.

Ans :

(B) A new endorsement should be placed in a different position to avoid overlapping the previous one.
For cheques that are re-presented after being returned, the new endorsement stamp must be

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affixed in a different position to avoid overlapping with the previous one. This ensures clarity and prevents smudging. Alternatively, stickers can be used to cover the previous endorsement. The original presenting bank must also cancel its earlier stamps to prevent any confusion.

May/June 2011

13. Which of the following is a key responsibility of a customer when writing a cheque to ensure its smooth processing under the Cheque Truncation System?

(A) Using a pencil to allow for easy corrections.
(B) Writing details as close to the top edge of the cheque as possible.
(C) Using only CTS 2010 compliant cheque leaves and image-friendly permanent ink.
(D) Leaving ample blank space in the amount fields for the bank to fill in.

Ans :

(C) Using only CTS 2010 compliant cheque leaves and image-friendly permanent ink.
Customers have a crucial role in ensuring successful CTS processing. They must use only CTS 2010 compliant instruments, as other types may not produce clear images. Additionally, it is essential to use permanent, image-friendly ink and write legibly to ensure all details are captured clearly during the scanning process, preventing returns due to poor image quality.

Oct/Nov 2019

14. Under the CTS framework, the responsibility for scrutinizing a cheque for material alterations shifts significantly. To whom does this responsibility primarily shift?

(A) From the presenting bank to the paying bank.
(B) From the customer to the paying bank.
(C) From the presenting bank to the Clearing House.
(D) From the paying bank to the presenting bank.

Ans :

(D) From the paying bank to the presenting bank.
In traditional clearing, the paying bank had the physical cheque to verify for material alterations. Under CTS, the paying bank relies on an image. Therefore, the responsibility to scrutinize the physical instrument for any material alterations that would render it void shifts to the presenting bank, as per the provisions of explanation II to Section 131 of the Negotiable Instruments Act.

May/June 2006

15. A bank is processing cheques for outward clearing under CTS. Which of the following is NOT a precaution the presenting bank needs to take?

(A) Verifying the drawer's signature with the specimen held by the paying bank.
(B) Ensuring the rubber stamps affixed do not interfere with material portions of the cheque.
(C) Checking that the instrument is a CTS 2010 Standards compliant cheque.
(D) Scrutinizing the cheque for any visible tampering or material alterations.

Ans :

(A) Verifying the drawer's signature with the specimen held by the paying bank.
The presenting bank is responsible for due diligence like checking the apparent tenor, physical feel, and for alterations. However, the verification of the drawer's signature against the specimen on record remains the primary responsibility of the paying (drawee) bank, as it is the only entity that holds the customer's signature mandate for that specific account.

Oct/Nov 2015

16. What combination of images is required to be captured for each cheque processed under the Cheque Truncation System in India?

(A) One front Gray Scale image only.
(B) One front Gray Scale image, one front Black & White image, and one back Black & White image.
(C) One front Black & White image and one back Black & White image.
(D) One front color image and one back Gray Scale image.

Ans :

(B) One front Gray Scale image, one front Black & White image, and one back Black & White image.
The CTS standard in India mandates the capture of three distinct images for every cheque. These are a front Gray Scale image (which captures finer details), a front Black & White image (for clarity of text and figures), and a back Black & White image (to capture endorsements and other markings on the reverse of the instrument).

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May/June 2023

17. If a paying bank is not satisfied with the quality of a cheque image received through CTS, what recourse does it have before making the payment?
(A) It must reject the payment outright.
(B) It can demand the physical instrument for verification.
(C) It must process the payment based on the MICR data alone.
(D) It can request the presenting bank to resend a higher-resolution image.

Ans :

(B) It can demand the physical instrument for verification.
While CTS is designed to eliminate the movement of physical cheques, a provision exists for exceptional circumstances. If a paying bank is not satisfied with the image quality or has other reasons for suspicion, it retains the right to demand the physical instrument from the presenting bank before making the final payment decision on the instrument.

Oct/Nov 2008

18. Read the following excerpt: "RBI has introduced Positive Pay System for CTS with effect from January 1, 2021. This involves a process of reconfirming key details of large value cheques. ... Banks have to make such facility available to all account holders issuing cheques for amounts of ₹50,000 and above. ... Banks have the option of making it mandatory in case of cheques for amounts of ₹5,00,000 and above."
Based on the excerpt, which statement is correct?
(A) Banks can choose to make the Positive Pay System mandatory for cheques valued at ₹5,00,000 and above.
(B) The Positive Pay System is a mandatory requirement for all cheques issued for amounts exceeding ₹50,000.
(C) The Positive Pay System was developed by individual commercial banks as a proprietary solution for their customers.
(D) Positive Pay is an optional facility that is available only for high-value cheques exceeding the threshold of ₹5,00,000.

Ans :

(A) Banks can choose to make the Positive Pay System mandatory for cheques valued at ₹5,00,000 and above.
The provided text clearly states that while the facility must be available for cheques of ₹50,000 and above, it is at the customer's discretion to use it. However, it explicitly gives banks the option to make the system mandatory for high-value cheques, specifically for amounts of ₹5,00,000 and above, to mitigate fraud risk.

May/June 2012

19. What is the primary purpose of the Positive Pay System (PPS) for cheques?
(A) To speed up the clearing of all cheques regardless of value.
(B) To allow customers to issue cheques electronically via SMS or mobile apps.
(C) To reconfirm key details of large value cheques to detect fraud.
(D) To enable the collection of outstation cheques at local clearing rates.

Ans :

(C) To reconfirm key details of large value cheques to detect fraud.
The Positive Pay System is a fraud prevention measure. It involves a process where the issuer of a high-value cheque submits key details (like cheque number, date, payee name, amount) to the drawee bank. These details are then cross-checked against the cheque presented for payment in the CTS, and any discrepancy is flagged for investigation.

Oct/Nov 2020

20. Which entity was tasked with developing the Positive Pay facility within the Cheque Truncation System?
(A) Reserve Bank of India (RBI)
(B) Indian Banks' Association (IBA)
(C) Institute for Development and Research in Banking Technology (IDRBT)
(D) National Payments Corporation of India (NPCI)

Ans :

(D) National Payments Corporation of India (NPCI)
The National Payments Corporation of India (NPCI), which manages the Cheque Truncation System grids in the country, was responsible for developing the Positive Pay facility. This integration allows for a seamless cross-verification process between the details submitted by the cheque issuer and the data of the cheque

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presented for payment within the existing CTS infrastructure.

May/June 2018

21. Which of the following is NOT one of the three core aspects that a bank's Cheque Collection Policy (CCP) should broadly cover, as per RBI's framework?

(A) Immediate Credit for Local/Outstation cheques.
(B) Time frame for Collection of Local/ Outstation Instruments.
(C) Schedule of charges for cheque book issuance.
(D) Interest payment for delayed collection.

Ans :

(C) Schedule of charges for cheque book issuance.
RBI has advised banks to formulate a comprehensive and transparent Cheque Collection Policy (CCP). This policy must primarily address three key areas: norms for giving immediate credit for cheques, a defined time frame for collecting local and outstation instruments, and the compensation structure, including interest payment, for any delays in collecting these instruments.

Oct/Nov 2007

22. If a bank's Cheque Collection Policy (CCP) does not specify a rate of interest for delays in the realisation of local cheques, what rate of compensation should be paid?

(A) The bank's prime lending rate.
(B) The interest rate applicable to savings bank (SB) accounts.
(C) The prevailing repo rate.
(D) A fixed rate of 8% per annum.

Ans :

(B) The interest rate applicable to savings bank (SB) accounts.
To ensure fair compensation to customers, RBI guidelines mandate that if a bank's own Cheque Collection Policy fails to specify a particular interest rate for delays in the collection of local cheques, the bank must pay compensation at the savings bank interest rate for the corresponding period of delay, ensuring a minimum level of recompense.

May/June 2010

23. A key principle of a bank's Cheque Collection Policy is regarding the payment of compensation for delays. How should this compensation be initiated?

(A) Only after the customer files a written complaint with proof of delay.
(B) It is paid semi-annually along with savings account interest.
(C) Only upon the direction of the Banking Ombudsman.
(D) It should be made without any claim from the customer.

Ans :

(D) It should be made without any claim from the customer.
A fundamental principle of a customer-centric Cheque Collection Policy is that compensation for delays should be proactive. Banks are required to make the interest payment for delayed collection automatically, without waiting for the customer to file a claim. This places the onus on the bank to monitor its service standards and compensate for any shortcomings.

Oct/Nov 2016

24. Read the following guideline: "RBI has prohibited the banks from crediting an 'account payee' cheque to the account of any person other than the payee named therein, due to following factors: To be in consonance with the legal requirements, especially, the intent of the NI Act, 1881. (Section 131 in The Negotiable Instrument Acts, 1881 provides that, "A banker who has in good faith and without negligence received payment for a customer of a cheque crossed generally or especially to him shall not, in case the title to the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment.")"
Based on this text, what is the primary purpose of Section 131 of the NI Act, 1881?

(A) To provide statutory protection to the collecting banker against a defective title.
(B) To define what constitutes an 'account payee' crossing.
(C) To mandate imprisonment for collecting a cheque for a non-payee.
(D) To specify the interest rate payable for delayed collection.

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Ans :

(A) To provide statutory protection to the collecting banker against a defective title.
The excerpt explains that Section 131 of the NI Act, 1881 offers protection to a collecting banker. This protection is granted if the banker collects a crossed cheque in good faith and without negligence for a customer. By adhering to the 'account payee' crossing, the bank demonstrates this good faith and lack of negligence, thus securing this statutory protection.

May/June 2024

25. If a drawer or payee instructs a bank to credit the proceeds of an 'account payee' cheque to an account other than that of the named payee, what should the bank do?
(A) Comply with the instruction after taking a written indemnity.
(B) Credit the proceeds and report the transaction to the RBI.
(C) Ask the drawer/payee to obtain a fresh cheque or have the 'account payee' mandate withdrawn by the drawer.
(D) Refuse the transaction and close the customer's account.

Ans :

(C) Ask the drawer/payee to obtain a fresh cheque or have the 'account payee' mandate withdrawn by the drawer.
To uphold the integrity of the 'account payee' crossing, banks are instructed not to credit such cheques to any account other than the named payee's. If such a request is made, the correct procedure is to advise the customer to either get a new cheque issued by the drawer or have the 'account payee' instruction on the current cheque formally withdrawn.

Oct/Nov 2011

26. To mitigate difficulties faced by co-operative credit societies, RBI allows banks to collect account payee cheques for their constituents up to a certain limit. What is this maximum amount?
(A) ₹50,000
(B) ₹20,000
(C) ₹1,00,000
(D) ₹2,00,000

Ans :

(A) ₹50,000
As a special dispensation, RBI has permitted banks to collect account payee cheques drawn for an amount not exceeding ₹50,000 to the accounts of co-operative credit societies, even if the society is not the named payee. This is allowed provided the payees are constituents of the society, which must provide a written representation to this effect.

May/June 2015

27. Effective from April 1, 2012, what is the maximum validity period for cheques, drafts, pay orders, and banker's cheques for payment?
(A) 6 months from the date of the instrument.
(B) 12 months from the date of the instrument.
(C) 30 days from the date of the instrument.
(D) 3 months from the date of the instrument.

Ans :

(D) 3 months from the date of the instrument.
To prevent these instruments from being circulated in the market like cash for extended periods, the RBI, exercising powers under Sec. 35A of the BR Act, 1949, reduced their validity. Effective from April 1, 2012, the validity period for payment of cheques, drafts, pay orders, and banker's cheques was shortened from six months to three months.

Oct/Nov 2023

28. A cheque deposited by Customer A with ABC Bank (the collecting bank) is lost in transit to XYZ Bank (the paying bank). Customer A incurs expenses of ₹150 to get a duplicate cheque from the drawer. According to RBI guidelines, who bears the onus of the loss and the responsibility for reimbursement?
(A) The onus is on the customer, who must bear the expenses.
(B) The onus is on the collecting bank (ABC Bank), which must reimburse the customer.
(C) The onus is on the paying bank (XYZ Bank), which must reimburse the customer.
(D) The onus is shared equally between the collecting and paying banks.

Ans :

(B) The onus is on the collecting bank (ABC Bank), which must reimburse the customer.
RBI guidelines are explicit that when a cheque is lost in transit or during the clearing process, the onus of such loss lies with the collecting banker, not the account holder. Therefore, ABC

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Bank is responsible for reimbursing Customer A for the related expenses incurred in obtaining the duplicate instrument and for any interest due for the delay.

May/June 2005

29. If a cheque is lost at the paying bank's branch after it has been received for payment, what right does the collecting banker have?

(A) The right to recover the reimbursed amount from the customer.
(B) No right of recovery; the loss is borne by the collecting bank.
(C) The right to recover the amount reimbursed to the customer from the paying banker.
(D) The right to file an insurance claim directly.

Ans :

(C) The right to recover the amount reimbursed to the customer from the paying banker.
The guidelines differentiate liability based on where the instrument was lost. If the loss occurs at the paying bank's branch, the collecting bank first reimburses its customer for expenses and interest. It then has a right to recover this amount from the paying bank, as the loss occurred while the instrument was in the paying bank's custody.

Oct/Nov 2014

30. For delays in the collection of bills, what is the rate of interest that the lodger's bank should pay to the lodger for the delayed period?

(A) The simple interest rate applicable to the customer's savings bank account for the corresponding period of delay.
(B) The bank's officially declared base rate as on the date the instrument was deposited by the customer.
(C) The prevailing one-year marginal cost of funds-based lending rate (MCLR) of the collecting bank.
(D) A rate of 2% p.a. above the rate of interest payable on balances of SB accounts.

Ans :

(D) A rate of 2% p.a. above the rate of interest payable on balances of SB accounts.
The compensation for delays in the collection of bills is specifically defined. The lodger's bank is required to pay interest for the delayed period at a rate of 2% per annum above the interest rate payable on its savings bank account balances. The delay is calculated after allowing for a normal transit period for various stages of collection.

May/June 2019

31. In a bank branch, which of the following cash balances is typically permitted to be under the single lock and custody of the Head Cashier/ Cashier during the day?

(A) The Cashier's Hand Balance for the day's transactions.
(B) The entire cash balance of the branch.
(C) All notes with a denomination of ₹100 and below.
(D) The cash designated for ATM replenishment.

Ans :

(A) The Cashier's Hand Balance for the day's transactions.
While the bulk of the branch's cash must be kept in the Strong Room/Safe under dual custody, an exception is made for the Cashier's Hand Balance. This working cash, which is kept as low as possible, is left with the cashier under his/her single lock during the day to facilitate routine transactions with customers over the counter.

Oct/Nov 2006

32. What is the 'clip system' used for in the context of checking cash balances at a bank branch?

(A) A method for bundling notes for transfer to the currency chest.
(B) A system for verifying a portion of notes in a packet without counting every single note.
(C) A security feature on cash bags to prevent tampering.
(D) A software tool for tracking cash movements between tellers.

Ans :

(B) A system for verifying a portion of notes in a packet without counting every single note.
The 'clip system' is a control procedure for checking cash. The supervising official personally counts high-denomination notes. For lower denominations, a few notes in each packet are clipped together. The official counts these clipped notes, and another employee counts the remainder in the official's presence, allowing for an efficient yet controlled verification of the total amount.

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May/June 2022

33. What is the final verification of cash bundles kept in the vault against the Reserve Cash Register, conducted before the Strong Room is closed, commonly called?
(A) Net check
(B) Gross check
(C) Day-end tally
(D) Vault audit

Ans :

(B) Gross check
Before securing the Strong Room for the day, a final verification step is performed. The Supervising Official, along with the Head Cashier/Cash Officer, checks the bundles of cash kept inside the vault and verifies them against the entries in the Reserve Cash Register. This comprehensive final check is referred to as a 'gross check'.

Oct/Nov 2018

34. At the end of the day, a bank cashier finds a shortage of ₹1,000 in her cash drawer. The cashier is unable to recover the amount from her personal funds on the same day. What is the correct accounting procedure for the bank to follow?
(A) The amount should be debited to the Suspense Account and reported to the Head Office.
(B) The amount should be debited to the branch's Profit & Loss account.
(C) The amount should be credited to the Sundry Deposit Account.
(D) The shortage should be ignored and adjusted against any future excess cash found.

Ans :

(A) The amount should be debited to the Suspense Account and reported to the Head Office.
The standard procedure for an unrecovered cash shortage is to debit the amount to the Suspense Account on the same day. This entry is supported by a voucher signed by the responsible staff. The matter is then reported to the Head Office, and the amount is subsequently recovered from the concerned staff and the Suspense Account entry is reversed.

May/June 2007

35. If an excess amount is found in the cash balance at a bank branch at the end of the day, what is the immediate accounting treatment for this amount?
(A) It should be held in a separate cash box until claimed.
(B) It should be distributed among the cash department staff.
(C) It should be credited to the Sundry Deposit Account.
(D) It should be debited to the Suspense Account.

Ans :

(C) It should be credited to the Sundry Deposit Account.
Any excess cash found in the branch's cash balance must be accounted for immediately by crediting it to the Sundry Deposit Account on the same day. This ensures the amount is properly recorded and held by the bank. If a customer later makes a genuine claim for having paid excess cash, the payment is made by debiting this account.

Oct/Nov 2025

36. Which of the following is an important security precaution for the remittance of cash from one bank office to another?
(A) Using public transport to avoid attracting attention.
(B) Scheduling remittances along a fixed, predictable daily route and time.
(C) Entrusting the remittance to a single, highly experienced employee.
(D) Avoiding night journeys and unusual halts at junctions mid-way.

Ans :

(D) Avoiding night journeys and unusual halts at junctions mid-way.
Security is paramount during cash remittance. To minimize risk, guidelines specify that remittances should be planned to avoid travel during the night. Furthermore, unusual or unscheduled halts at intermediate junctions should be avoided, as these can create opportunities for theft or robbery. The entire journey should be direct and as per a secure plan.

May/June 2017

37. What is the standard practice for ensuring security and accuracy during the bin filling (cash replenishment) process at an ATM?
(A) It is done by a single trained official to ensure accountability.

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(B) The ATM is kept online and functional during the replenishment process.
(C) It is normally done in the presence of at least two persons.
(D) Biometric prints of the branch manager are required to open the ATM.

Ans :

(C) It is normally done in the presence of at least two persons.
To ensure accuracy in counting and as a security measure against fraud or error, the process of replenishing cash in an ATM (bin filling) is typically carried out by at least two individuals. This dual presence provides a cross-check mechanism and enhances the overall integrity of the cash handling and loading operation at the ATM site.

Oct/Nov 2009

38. What type of insurance policy typically covers cash remittances in transit for a bank?
(A) A specific Transit Insurance Policy for each remittance.
(B) A Blanket Insurance Policy obtained by the bank.
(C) The bank's standard Fire and Burglary Policy.
(D) A Fidelity Guarantee Insurance Policy for the employees.

Ans :

(B) A Blanket Insurance Policy obtained by the bank.
Banks typically obtain a comprehensive Blanket Insurance Policy (also known as a Bankers Blanket Bond). This policy provides broad coverage for various risks, including the loss of cash and other assets while in transit. It is crucial for the bank to ensure that any single cash carriage does not exceed the maximum limit specified in this policy.

May/June 2020

39. According to branch security procedures, what must be done if a safe was previously handled by an unauthorized official?
(A) The safe must be immediately replaced with a new one.
(B) An additional lock must be added to the safe.
(C) The safe should be kept empty for a period of 30 days.
(D) The levers of the locks should be changed.

Ans :

(D) The levers of the locks should be changed.
As a critical security measure, if a safe has been accessed or handled by an unauthorized person, the internal mechanism of the lock is considered compromised. The standard protocol in such a situation is to have the levers of the locks changed by an authorized technician, thereby resetting the combination and ensuring the safe's security is restored.

Oct/Nov 2021

40. Which of the following actions regarding important keys (e.g., strong room, safes) is permissible without prior permission from the Head Office?
(A) Noting a lock change in the Key Register.
(B) Making a duplicate of a key that is showing signs of wear.
(C) Carrying out minor repairs to a strong room lock.
(D) Disposing of an old, replaced lock.

Ans :

(A) Noting a lock change in the Key Register.
Bank procedures strictly control the management of important keys. Making duplicates or carrying out repairs requires prior permission from the Head Office. However, whenever a lock or its levers are changed (with due authorization), it is a mandatory procedural step to record this event in the branch's Key Register to maintain an accurate log.

May/June 2013

41. What is the prescribed procedure for storing the duplicate keys of a branch's Strong Room and safes?
(A) They should be kept in the Branch Manager's personal locker.
(B) They should be stored in a separate, smaller safe within the same branch.
(C) They should be sealed and kept in safe custody with another local branch.
(D) They should be held by the Regional Office for emergency use.

Ans :

(C) They should be sealed and kept in safe custody with another local branch.
To prevent a single point of failure or compromise, the duplicate keys of a branch's critical assets

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like the strong room and safes must not be kept within the same branch. The correct procedure is to pack them in sealed envelopes, place them in a locked box, and deposit this box for safe custody with another nearby branch.

Oct/Nov 2012

42. How often should duplicate keys be withdrawn from safe custody and rotated?
(A) Once in every year.
(B) Once every six months.
(C) Only when a key-holding officer is transferred.
(D) Once every two years.

Ans :

(A) Once in every year.
As a control and verification measure, there is a mandatory annual procedure for duplicate keys. They must be withdrawn from the custodial branch, inspected, and then rotated. This process ensures the keys are accounted for, are in good condition, and that the custody instructions are current, enhancing the overall security protocol of the bank.

May/June 2016

43. Which of the following is a recommended security measure related to the layout of a bank branch?
(A) The Branch Manager's cabin should be in a secluded area for privacy.
(B) The cashiers' cabin should be located as close to the entry/exit as possible for customer convenience.
(C) The strong room/safe should be prominently visible to the public to deter theft.
(D) The Branch Manager's cabin should be in a corner facilitating a clear view of the entire banking hall.

Ans :

(D) The Branch Manager's cabin should be in a corner facilitating a clear view of the entire banking hall.
A key principle of branch layout design for security is to provide the Branch Manager with maximum visibility over the premises. Placing the manager's cabin in a corner that offers a clear and unobstructed view of the banking hall and entrance allows for better monitoring of activities and quicker response to any unusual or suspicious situations.

Oct/Nov 2009

44. To enhance physical security, what specification is mentioned for the collapsible gate at a branch entrance?
(A) It must be fully automated with a biometric lock.
(B) It should have an opening of only eighteen inches.
(C) It must be made of bulletproof material.
(D) It should be equipped with a siren that triggers upon forced entry.

Ans :

(B) It should have an opening of only eighteen inches.
The guidelines for protective fittings specify that a collapsible gate with a chain and locking arrangement should be installed at the branch entrance. A key security feature of this gate is that it should be designed to have a restricted opening of only eighteen inches, which helps in controlling access and preventing a group of intruders from rushing in.

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May/June 2023

45. Assertion (A): Branches, ATMs, and Data Centers should be equipped with security gadgets like CCTV, sensors, and auto-dialers.
Reason (R): These devices help in reducing delay in communication to the police, identifying culprits, and catching them.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) correctly states the need for electronic security gadgets in banking infrastructure. Reason (R) provides the precise justification for their installation: these devices enhance security by enabling faster response from law enforcement and aiding in the investigation and apprehension of criminals. Therefore, the reason directly explains the purpose of the assertion.

Oct/Nov 2018

46. What is the minimum number of armed guards that a Currency Chest branch should have during working hours?

(A) One armed guard.
(B) Three armed guards.
(C) One armed guard for every ₹1 crore of cash held.
(D) Two armed guards.

Ans :

(D) Two armed guards.
Due to the high value of cash held and the inherent risk, Currency Chest branches are required to maintain a higher level of security. The guidelines specify that these branches must have two armed guards on duty during working hours and one armed guard to provide security round the clock, ensuring continuous protection of the premises.

May/June 2007

47. Read the following security measures for Currency Chests: "(a) Installation of steel barricades, (b) segregating the Currency Chest area from the branch hall, (c) Positioning of the armed guard on duty in front of the Currency Chest so that he cannot be neutralized by any outside intruder..."
Based on these measures, what is the primary objective of the guard's positioning?

(A) To prevent the guard from being easily disabled by an intruder.
(B) To assist customers entering the branch.
(C) To have a clear line of sight to the branch manager's cabin.
(D) To monitor the staff's activities within the branch hall.

Ans :

(A) To prevent the guard from being easily disabled by an intruder.
The text explicitly states that the armed guard should be positioned in front of the Currency Chest in a way that he "cannot be neutralized by any outside intruder." This strategic placement, often within a barricaded area, is designed to protect the guard, allowing him to effectively defend the high-security zone without being an easy first target.

Oct/Nov 2025

48. What is a key guideline regarding the movement of large/bulk cash within a bank branch?

(A) It should be done openly to deter potential robbers.
(B) Confidentiality should be maintained, and information should be known only to concerned officials.
(C) It should be announced over the branch public address system for transparency.
(D) A fixed routine for route and time should be used for efficiency.

Ans :

(B) Confidentiality should be maintained, and information should be known only to concerned officials.
To prevent information leaks that could facilitate a robbery, strict confidentiality must be maintained regarding the movement of large amounts of cash. Knowledge about major cash transactions, their timing, and movement should be restricted to only the essential officials involved at the appropriate time. Fixed routines for time and route must be avoided.

May/June 2012

49. As an operational security measure, branches are advised to maintain a set of marked new currency notes. What is the primary purpose of these marked notes?

(A) To test the functionality of note counting machines.
(B) To help investigating agencies in the event of thefts or robbery.
(C) To be used for exchange of soiled notes presented by customers.
(D) To serve as a sample for staff training on counterfeit detection.

Ans :

(B) To help investigating agencies in the event of thefts or robbery.
Branches maintain a record of the numbers (with prefixes and suffixes) of a set of marked currency notes kept at the counter. In the unfortunate event of a robbery or theft, the details of these "bait money" notes can be circulated to law enforcement, which significantly aids in tracking the stolen currency and identifying the culprits.

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Oct/Nov 2014

50. What is the immediate action a bank official must take upon detecting a counterfeit note tendered by a customer over the counter?

(A) Impound the note, stamp it as "COUNTERFEIT NOTE," and issue an acknowledgement receipt to the tenderer.
(B) Immediately return the note to the customer and ask for a valid replacement note.
(C) Destroy the note in the presence of the customer and a witness to prevent its further circulation.
(D) Credit the customer's account for the full value provisionally and send the note for forensic analysis.

Ans :

(A) Impound the note, stamp it as "COUNTERFEIT NOTE," and issue an acknowledgement receipt to the tenderer.
The prescribed procedure for handling counterfeit notes is strict. The note must not be returned or destroyed. It must be impounded by the bank, stamped as counterfeit, and recorded in a separate register. An acknowledgement receipt must be issued to the person who tendered it, even if they are unwilling to countersign the receipt.

May/June 2019

51. A Nodal Bank Officer detects a single deposit transaction containing six pieces of counterfeit notes. According to the reporting procedure, what is the required action?

(A) Consolidate this incident in a monthly statement to be sent to the police at the end of the month.
(B) Send the notes directly to the RBI's Forged Note Vigilance Cell.
(C) File a First Information Report (FIR) immediately with the local police authorities.
(D) Return the notes to the customer with a warning.

Ans :

(C) File a First Information Report (FIR) immediately with the local police authorities.
The reporting guidelines for counterfeit notes are based on the quantity found in a single transaction. For transactions involving five or more pieces, the procedure mandates immediate action. The Nodal Bank Officer must file an FIR in the prescribed format with the local police or Nodal Police Station, along with the impounded counterfeit notes.

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Oct/Nov 2006

52. When a bank reports counterfeit notes to the police, what must be obtained and kept on record as proof of submission?

(A) A photograph of the police officer receiving the notes.
(B) A stamped receipt from the Nodal Police Station.
(C) The FIR number written on a plain paper.
(D) An acknowledgement from the police authorities.

Ans :

(D) An acknowledgement from the police authorities.
To ensure proper documentation and accountability, the bank must obtain an acknowledgement from the concerned police authorities for the counterfeit notes forwarded to them. If the submission is made via insured post, the postal acknowledgement of receipt by the police must be invariably obtained and kept securely on record as proof of compliance.

May/June 2021

53. Match the participant type in CTS (List-I) with its correct description (List-II).

List-I (Participant Type)			**List-II (Description)**
P.	Member banks	1.	Participate through members
Q.	Sub-Member banks	2.	Participate through a Member bank but maintain a separate settlement account.
R.	Indirect members	3.	Are direct members of the Clearing House

Code:
(A) P-3, Q-1, R-2
(B) P-1, Q-3, R-2
(C) P-2, Q-1, R-3
(D) P-3, Q-2, R-1

Ans :

(A) P-3, Q-1, R-2

In the CTS framework, Member banks are direct participants of the Clearing House. Sub-Member banks are not direct members and must participate through a Member bank. Indirect members also participate via a Member bank for image submission but are distinct because they maintain their own separate settlement account with the central bank for clearing obligations.

Oct/Nov 2010

54. Which of the following statements regarding the handling of cash and keys in a bank are correct?

1. The bulk of the Cash Balance should always be in the Strong Room under joint custody.
2. The receptacle used for the Cashier's hand balance should be under dual custody.
3. Particulars of all important keys, including duplicates, must be entered in the Key Register.
4. Duplicate keys must be withdrawn from safe custody and rotated once every two years.

(A) 1 and 3 only
(B) 2 and 4 only
(C) 1, 2, and 3 only
(D) 1, 3, and 4 only

Ans :

(A) 1 and 3 only
Statement 1 is correct as bulk cash requires joint custody. Statement 3 is correct as the Key Register is the master log for all keys. Statement 2 is incorrect; the cashier's hand balance is an exception and is under a single lock. Statement 4 is incorrect; the rotation of duplicate keys is required annually, not every two years.

May/June 2005

55. Consider the following statements about security arrangements at branches:

1. Police authorities should be consulted before deciding on a location for a branch.
2. The cashiers' cabin should be as far away as possible from the entry/exit.
3. Strong rooms should be provided with grill gates.
4. Branch premises should preferably have only one entrance for better control.

Which of the above statements are correct?
(A) 1 and 4 only
(B) 2, 3 and 4 only
(C) 1, 2 and 3 only
(D) All of the above

Ans :

(C) 1, 2 and 3 only
Consulting police (1), locating the cashier's cabin away from the exit (2), and fitting strong rooms with grill gates (3) are all prescribed security measures. However, statement 4 is incorrect. For fire safety, it is recommended that branch premises preferably have two entrances, which should be suitably guarded and located, not just one.

Oct/Nov 2022

56. An excerpt on delayed bill collection states: "The lodger's bank should pay interest to the lodger for the delayed period in respect of collection of bills at the rate of 2% p.a. above the rate of interest payable on balances of SB accounts. The delayed period should be reckoned after making allowance for normal transit period based upon a time frame of 2 days each for (i) Dispatch of bills (ii) Presentation of bills to drawees (iii) Remittance of proceeds to the lodger's bank (iv) Crediting the proceeds to drawer's account."
If the total time taken for collection was 15 days, what is the number of days for which penal interest would be calculated?
(A) 7 days
(B) 15 days
(C) 8 days
(D) 9 days

Ans :

(A) 7 days
The normal transit period allowed is the sum of the time frames for the four stages mentioned. The time frame for each of the four stages is 2 days. Therefore, the total normal transit period is $2 \times 4 = 8$ days. Since the actual time taken was 15 days, the delay is $15 - 8 = 7$ days, for which penal interest is payable.

May/June 2018

57. Mr. Sharma issues a CTS-2010 compliant cheque of ₹6,00,000. His bank has a policy of mandatory Positive Pay System (PPS) for all cheques of ₹5,00,000 and above. Mr. Sharma forgets to submit the PPS details. The cheque is presented in clearing. What is the most likely outcome?

(A) The cheque will be paid normally as PPS is optional for the customer.
(B) The paying bank will contact Mr. Sharma to get verbal confirmation before paying the

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cheque.

(C) A discrepancy will be flagged by CTS, and the cheque will likely be returned under the dispute resolution mechanism.

(D) The cheque will be paid, but a penalty will be charged to Mr. Sharma's account.

Ans :

(C) A discrepancy will be flagged by CTS, and the cheque will likely be returned under the dispute resolution mechanism.

Since the bank has made PPS mandatory for this value and the issuer has not provided the details, a mismatch occurs in the PPS-enabled CTS. This lack of pre-submitted information is treated as a discrepancy, which is flagged to the drawee and presenting banks. Such cheques are not accepted under the dispute resolution mechanism and are typically returned.

Oct/Nov 2016

58. Identify the correct statements regarding the Cheque Truncation System (CTS).

1. Truncation can be done by the drawer of the cheque.
2. The paying bank receives the physical cheque on a T+2 basis.
3. Cheques with alterations in material fields are not allowed to be processed.
4. CTS operates on a grid basis, with clearing houses in Delhi, Mumbai, and Chennai.
5. Digital signatures on the electronic image are optional.

(A) 1, 2, and 4 only
(B) 3, 4, and 5 only
(C) 2, 3, and 5 only
(D) 1, 3, and 4 only

Ans :

(B) 3, 4, and 5 only

Statement 3 is correct as altered cheques are not processed. Statement 4 correctly identifies the grid structure and locations. Statement 5 is correct as digital signatures are optional. Statement 1 is incorrect; only banks/CH can truncate. Statement 2 is incorrect; the paying bank receives an image, and clearing is on a T+1 basis, not T+2.

May/June 2014

59. A bank's internal circular on cash handling states: "If a cash shortage is detected, it must be recovered from the responsible staff on the same day. Failing recovery, the amount must be debited to the Suspense Account. Any excess cash must be credited to the Sundry Deposit Account. If a customer's claim of short payment is found genuine, the amount is paid by debiting the Sundry Deposit Account."

Which action is inconsistent with this circular?

(A) A cashier's shortage of ₹200 is debited to the Suspense Account after she fails to pay it immediately.

(B) An excess of ₹500 found at day-end is credited to the Sundry Deposit Account.

(C) A customer's valid claim for ₹100 short payment is paid from the branch's cash-in-hand.

(D) The Head Cashier recovers a shortage from a teller on the same day it occurred.

Ans :

(C) A customer's valid claim for ₹100 short payment is paid from the branch's cash-in-hand.

The circular specifies a clear process: excess cash is credited to the Sundry Deposit Account, and genuine customer claims are paid by debiting the same Sundry Deposit Account. Paying a customer's claim directly from the general cash-in-hand bypasses this specific accounting trail and is therefore inconsistent with the prescribed procedure for managing cash excesses and shortages.

Oct/Nov 2007

60. A bank branch is planning its fire protection measures. Which of the following actions align with the recommended guidelines?

1. Installing an adequate number of periodically refilled fire extinguishers.
2. Conducting mock drills for staff and public on handling fire emergencies.
3. Fitting smoke detectors at various points with a fire alarm system.
4. Preferring to have only a single, heavily guarded entrance to the premises.

(A) 1 and 3 only
(B) 1, 2, and 3 only
(C) 2, 3, and 4 only
(D) All of the above

Ans :

(B) 1, 2, and 3 only

Installing extinguishers, conducting mock drills, and fitting smoke detectors are all standard

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and recommended fire protection measures. However, statement 4 is incorrect in the context of fire safety. Guidelines recommend having two entrances for emergency evacuation, not a single one. While a single entrance might seem better for security, it poses a significant fire hazard.

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CHAPTER 7
Banker's Special Relationship

Oct/Nov 2014

1. When an account holder authorises another person to operate their account through a legal document, what kind of relationship is established between the banker and the customer?
(A) A fiduciary relationship
(B) A special relationship
(C) A principal-agent relationship
(D) A debtor-creditor relationship

Ans :

(B) A special relationship
When an account holder grants authority to a third party to operate their account using legal documents like a mandate or power of attorney, it creates a special relationship between the banker and the customer. This is distinct from the ordinary debtor-creditor relationship and requires the bank to act according to the specific terms of the given authority.

May/June 2007

2. According to the definition of a mandate, who can authorise another person to open and operate an account on their behalf?
(A) Only a person competent to enter into a contract
(B) Any individual, regardless of their legal status
(C) Only institutions and corporations
(D) Any existing account holder of the bank

Ans :

(A) Only a person competent to enter into a contract
A mandate is a form of authority granted to a third party. To grant such authority legally, the principal (the person giving the mandate) must be competent to enter into a contract. This ensures the legal validity of the arrangement, as contractual capacity is a fundamental prerequisite for creating binding agreements, including authorising an agent to act on one's behalf.

Oct/Nov 2019

3. Which of the following statements regarding a mandate is incorrect?
(A) The signature of the mandatee is verified by the customer in the mandate letter.
(B) The customer informs the bank about the authority given to the mandatee.
(C) A mandate is typically used for a long-term, indefinite period.
(D) A mandate can be withdrawn at any time by the account holder.

Ans :

(C) A mandate is typically used for a long-term, indefinite period.
A mandate is normally intended for temporary use and is suitable for a short period. For long-term or more extensive authorisations, a Power of Attorney is the more appropriate legal instrument. The temporary nature of a mandate is a key characteristic that distinguishes it from a Power of Attorney, which can grant much broader and more enduring powers.

May/June 2025

4. Under which of the following circumstances does a mandate cease to be valid?
(A) When the mandatee changes their residential address
(B) If the account balance falls below the minimum required level
(C) After the mandate has been used for a single transaction
(D) Upon the death, insanity, or insolvency of the account holder

Ans :

(D) Upon the death, insanity, or insolvency of the account holder
A mandate is an authority derived directly from the principal (account holder). Therefore, it automatically terminates if the principal loses their legal capacity to contract. Events such as the death, legally declared insanity, or bankruptcy/ insolvency of the account holder will render the

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mandate invalid, and the bank must not honour any further instructions from the mandatee.

Oct/Nov 2010

5. Why are institutions generally required to issue a Power of Attorney instead of a mandate to authorise a third party?

(A) Because mandates cannot be legally registered, which is often a requirement for corporate governance.

(B) Because mandates are specifically designed for personal accounts and lack provisions for institutional liability.

(C) Because institutions require more formal, extensive, and often long-term authorisations.

(D) Because mandates do not allow for complex operations like overdrafts, which are common in institutional accounts.

Ans :

(C) Because institutions require more formal, extensive, and often long-term authorisations.

Institutions like companies or partnerships typically require authorisations that are more formal and comprehensive than what a simple mandate provides. A Power of Attorney is a stamped legal document that can confer extensive and specific powers for a longer duration, which is better suited to the operational needs and legal structures of corporate or institutional entities.

May/June 2016

6. In the context of a Power of Attorney (POA), what are the terms used to describe the person executing the document and the person in whose favour it is executed?

(A) Principal and Agent respectively

(B) Donor or Principal, and Donee or Agent respectively

(C) Authoriser and Appointee respectively

(D) Grantor and Grantee respectively

Ans :

(B) Donor or Principal, and Donee or Agent respectively

A Power of Attorney is a legal document where one person, referred to as the 'donor' or 'principal', executes it to grant authority to another person. The recipient of this authority, who is empowered to act on behalf of the donor, is formally known as the 'donee' or 'agent'. These specific legal terms define the roles in the POA relationship.

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Oct/Nov 2022

7. What is the primary difference between a General Power of Attorney and a Specific Power of Attorney?

(A) A General POA is for borrowal accounts, while a Specific POA is for deposit accounts.

(B) A General POA must be registered, while a Specific POA does not require registration.

(C) A General POA is revocable, while a Specific POA is irrevocable.

(D) A General POA is for multiple transactions, while a Specific POA is for a single purpose or transaction.

Ans :

(D) A General POA is for multiple transactions, while a Specific POA is for a single purpose or transaction.

A General or Universal POA confers very extensive powers to the donee, authorising them to act in more than one transaction. In contrast, a Specific or Limited POA is issued for a precisely defined purpose and is often limited to a single transaction. The scope of authority is the key distinguishing factor between the two types of POA documents.

May/June 2005

8. A General Power of Attorney typically grants the donee the authority to perform which of the following actions on behalf of the principal?

(A) Sign cheques, stop payment of cheques, and sign borrowal documents.

(B) Close the principal's account permanently and transfer the final balance.

(C) Open new accounts in the donee's own name using the principal's funds for investment.

(D) Appoint another agent to manage the account without any specific provision in the POA.

Ans :

(A) Sign cheques, stop payment of cheques, and sign borrowal documents.

A General POA usually provides the donee with significant operational control over the principal's account. This includes the power to sign cheques to withdraw funds, issue instructions to stop the payment of cheques, and even execute borrowal documents to create a liability for the principal, demonstrating the extensive nature of the authority granted by this instrument.

Oct/Nov 2018

9. What is a mandatory procedural requirement for the execution of a Power of Attorney document?
(A) It must be co-signed by the bank manager to confirm the principal's identity and signature.
(B) It must be published in a local newspaper for a set period to be considered legally valid.
(C) It is a stamped document and must be executed in the presence of a Notary Public or Magistrate.
(D) It must be reviewed and renewed annually with the concerned bank to remain in force.

Ans :

(C) It is a stamped document and must be executed in the presence of a Notary Public or Magistrate.
To ensure its legal validity and authenticity, a Power of Attorney must be a stamped document as per the relevant stamp act. Furthermore, its execution by the donor must be witnessed and certified by an authorised official, such as a Notary Public, a Magistrate of a Court, or another Government official specifically authorised to perform such attestations.

May/June 2023

10. How must a Power of Attorney holder sign documents when acting on behalf of the principal?
(A) By signing as 'Per pro' for the principal
(B) By signing their own name only
(C) By signing the principal's name only
(D) By signing as a 'Guarantor' for the principal

Ans :

(A) By signing as 'Per pro' for the principal
The correct way for a POA holder (donee) to sign is by indicating that they are signing on behalf of the principal. The term 'Per pro' (per procurationem) is used for this purpose, signifying that the signature is made under the authority of another. This is typically followed by the name of the principal and then the donee's own signature.

Oct/Nov 2009

11. Which of the following statements about the revocation of a Power of Attorney is correct?
(A) A POA can only be revoked with the mutual, written consent of both the donor and the donee.
(B) A POA can only be revoked through a formal court order after a judicial hearing.
(C) A POA, once issued and registered, is considered irrevocable for a minimum period of one year.
(D) A POA is automatically revoked by the death, insanity, or insolvency of the principal.

Ans :

(D) A POA is automatically revoked by the death, insanity, or insolvency of the principal.
The authority granted by a POA is dependent on the continued legal capacity of the principal (donor). Consequently, events like the principal's death, judicially declared insanity, or insolvency (or winding up/liquidation for a company) automatically terminate the POA. The principal can also revoke it at any time for future transactions while they retain legal capacity.

May/June 2012

12. Consider the following statements regarding the delegation of powers for account operations:
1. For a joint account, all joint account holders must sign the mandate or POA.
2. For a partnership firm, any one partner can sign a POA to authorise a third party.
3. Fiduciaries like executors and administrators can freely appoint agents to operate accounts.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(A) 1 only
Statement 1 is correct as all joint holders must consent to delegating authority. Statement 2 is incorrect because, for a partnership firm, all partners must sign the POA or mandate. Statement 3 is incorrect as fiduciaries, who act in a position of trust, cannot delegate their powers to an agent unless specifically permitted by the instrument appointing them.

Oct/Nov 2025

13. Under what condition can a person authorised to operate a limited company's account delegate that authority to another person?
(A) With verbal approval from the company's board of directors.
(B) This is never permitted under company law.

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(C) If the person has specific authority to further delegate their powers.
(D) If the bank manager provides written consent for the sub-delegation.

Ans :

(C) If the person has specific authority to further delegate their powers.
The legal principle 'delegatus non potest delegare' (a delegate cannot further delegate) applies here. A person authorised to operate a company's account can only delegate that power to a third party if their own original authority explicitly includes the power of sub-delegation. Without this specific provision, they cannot appoint an agent to act on their behalf.

May/June 2019

14. An attorney (donee of a POA) wishes to delegate their powers to another person. When is this permissible?
(A) It is always permissible as long as the bank is formally notified in writing.
(B) It is only permissible for specific POAs and not for general POAs due to their broad nature.
(C) It is only permissible if the principal is a non-resident and cannot manage affairs locally.
(D) Only if the original Power of Attorney specifically provides for the power of substitution.

Ans :

(D) Only if the original Power of Attorney specifically provides for the power of substitution.
An attorney, being an agent themselves, cannot delegate their delegated authority to another person. The only exception to this rule is when the original POA document, executed by the principal, explicitly contains a clause granting the attorney the 'power of substitution'. This clause specifically permits the attorney to appoint another person to carry out the authorised tasks.

Oct/Nov 2006

15. Mr. Sharma and Mr. Verma hold a joint savings account with an 'either or survivor' mandate. Mr. Sharma wants to grant a mandate to his son, Mr. Akash, to operate the account. Mr. Verma is currently abroad and is not reachable. What is the correct procedure the bank should follow?
(A) The bank must insist on the signatures of both Mr. Sharma and Mr. Verma on the mandate form.
(B) The bank can accept the mandate signed only by Mr. Sharma due to the 'either or survivor' clause.
(C) The bank should ask for a notarized Power of Attorney instead of a simple mandate.
(D) The bank can allow Mr. Akash to operate the account based on Mr. Sharma's sole written instruction.

NODIA

Ans :

(A) The bank must insist on the signatures of both Mr. Sharma and Mr. Verma on the mandate form.
For a joint account, the decision to delegate operational authority to a third party must be unanimous. All joint account holders must sign the mandate or Power of Attorney document, irrespective of the operational instructions on the account (like 'either or survivor'). The bank cannot act on the instruction of only one joint holder in this matter.

May/June 2021

16. The banker's right of lien is described as an 'implied pledge'. What specific power does this confer upon the banker that is more than a general lien?
(A) The power to use the goods for the bank's own business or operations.
(B) The power to sell the goods and securities in case of default by the customer.
(C) The power to prevent the customer from accessing the bank premises or their accounts.
(D) The power to transfer the goods to another branch or location without prior notice.

Ans :

(B) The power to sell the goods and securities in case of default by the customer.
A general lien typically only grants the right to retain possession of goods. However, the banker's lien is considered an 'implied pledge', which gives the banker the additional and more powerful right to sell the goods and securities that came into their possession in the ordinary course of business to recover a debt if the customer defaults on payment.

Oct/Nov 2016

17. According to Section 171 of the Indian Contract Act, 1872, what is the nature of the banker's right of general lien?

(A) It is a contractual right that must be explicitly agreed upon in a written lien agreement.

(B) It is an absolute right to retain security for a general balance of account, in the absence of a contract to the contrary.

(C) It is a limited right applicable only to cash deposits and not to other securities.

(D) It is a discretionary right that requires prior approval from a court of competent jurisdiction.

Ans :

(B) It is an absolute right to retain security for a general balance of account, in the absence of a contract to the contrary.

Section 171 of the Indian Contract Act, 1872, statutorily grants bankers a general lien. This means they can retain any goods and securities bailed to them as security for the customer's overall debt balance, not just for a specific debt. This right exists automatically unless there is an express or implied contract that overrides or excludes it.

May/June 2014

18. Under what circumstance would a banker NOT have a right of lien over securities?

(A) When a customer inadvertently leaves a packet of share certificates on a counter.

(B) When the securities are pledged for a specific overdraft facility.

(C) When the securities are received in the normal course of banking business.

(D) When the securities are held as collateral for a term loan that is currently being serviced.

Ans :

(A) When a customer inadvertently leaves a packet of share certificates on a counter.

For the banker's lien to apply, the goods or securities must have been entrusted to the bank in its capacity as a banker and in the ordinary course of business. Securities that are left behind inadvertently or negligently by a customer on the bank's premises do not meet this condition, and therefore, the bank cannot exercise a lien over them.

Oct/Nov 2007

19. What is the primary distinction between a 'General lien' and a 'Particular lien'?

(A) A general lien applies to all assets of the debtor, while a particular lien applies only to immovable property.

(B) A general lien is exercised by banks, while a particular lien is exercised by individuals.

(C) A general lien secures all of a customer's debts, while a particular lien secures only the debt related to the specific goods retained.

(D) A general lien allows the sale of assets, while a particular lien only allows retention.

Ans :

(C) A general lien secures all of a customer's debts, while a particular lien secures only the debt related to the specific goods retained.

A 'particular lien' gives the right to retain possession of only those specific goods for which the charges or dues have arisen. In contrast, a 'general lien', such as the one available to bankers, allows the retention of any of the customer's goods in their possession as security for the 'general balance of account' or all outstanding dues from that customer.

May/June 2009

20. Which of the following is a necessary condition for a security to fall under a bank's lien?

(A) The property must have been deposited for a specific purpose, like safe custody.

(B) There must be an express contract signed by the customer excluding the lien.

(C) The property must belong to a third party but be held by the customer.

(D) The property must be in the possession of the bank in its capacity as a creditor.

Ans :

(D) The property must be in the possession of the bank in its capacity as a creditor.

For a bank to exercise its lien, the property (goods or securities) must have come into its hands in its capacity as a creditor bank. This means the possession must be related to the banking business and not for another purpose, such as a bailee for safe custody. The relationship must be that of a debtor and creditor.

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Oct/Nov 2011

21. Which of the following is NOT a condition that must be satisfied for a banker's lien to be applicable?

(A) There should be no entrustment for a special purpose inconsistent with the lien.
(B) The possession of the goods must be in the same right as the account of the customer.
(C) There should be an express written agreement establishing the right of lien.
(D) There should be no contract, express or implied, to exclude the lien.

Ans :

(C) There should be an express written agreement establishing the right of lien.
The banker's general lien is a statutory right granted under Section 171 of the Indian Contract Act, 1872, and an implied right arising from practice. Therefore, no separate or express agreement is necessary for it to be applicable. While banks may take a letter of lien as a precaution, the right exists even without it.

May/June 2010

22. Besides bankers, Section 171 of the Indian Contract Act, 1872, grants the right of general lien to which of the following groups?

(A) Auditors, company secretaries, and financial consultants
(B) Factors, wharfingers, attorneys of high courts, and policy brokers
(C) Landlords, tenants, and property managers
(D) Government tax authorities and municipal corporations

Ans :

(B) Factors, wharfingers, attorneys of high courts, and policy brokers
Section 171 of the Indian Contract Act, 1872, explicitly names specific professionals who are entitled to a general lien in the absence of a contract to the contrary. This list includes bankers, factors (agents who buy/sell goods), wharfingers (owners of wharves), attorneys of high courts (for their fees), and policy brokers (for insurance premiums).

Oct/Nov 2024

23. A bank cannot exercise its right of lien in which of the following situations?

(A) On securities held against a loan that is fully paid.
(B) On a customer's fixed deposit receipt held by the bank.
(C) On shares pledged as collateral for an overdraft account.
(D) When the debt owed by the customer has not yet matured.

Ans :

(D) When the debt owed by the customer has not yet matured.
The right of lien can only be exercised to recover a debt that is currently due and payable. If a debt has not yet matured (e.g., the due date for a loan installment has not arrived), the bank cannot exercise its lien on the customer's securities to cover that future or contingent liability. The debt must be present and enforceable.

NODIA

May/June 2017

24. A customer deposits a sealed box containing ornaments for safe custody with a bank. The customer later defaults on a personal loan taken from the same bank. Can the bank exercise its lien on the ornaments in the safe custody?

(A) No, because items deposited for safe custody create a trustee/bailee relationship.
(B) Yes, because the bank has a general lien over all assets of the customer in its possession.
(C) Yes, but only after obtaining a court order to open the sealed box and value the contents.
(D) No, because a lien is not applicable to valuable items like ornaments, only financial securities.

Ans :

(A) No, because items deposited for safe custody create a trustee/bailee relationship.
When a customer deposits items for safe custody, the bank acts as a bailee or trustee, not as a creditor. This entrustment is for a special purpose inconsistent with the lien. Therefore, the bank cannot exercise its general lien on such articles unless there is a special agreement with the customer explicitly allowing it for safe custody items.

Oct/Nov 2005

25. A customer brings in securities that were stolen from a third party and delivers them to the bank as collateral for a loan. The bank acts in good faith without knowledge of the theft. The customer defaults. Can the bank exercise a lien on these stolen securities?

(A) Yes, because the bank received them in the ordinary course of business.
(B) Yes, because the bank was unaware that the securities were stolen.
(C) No, because the customer (debtor) did not have a valid title to the securities.
(D) No, because lien cannot be exercised on securities, only on physical goods.

Ans :

(C) No, because the customer (debtor) did not have a valid title to the securities.
A person cannot pass on a better title than they themselves possess. Since the customer had a defective title (as the securities were stolen), the bank does not acquire a valid right of lien over them, even if the transaction occurred in the ordinary course of business and the bank was unaware of the theft. The true owner's rights prevail.

May/June 2020

26. When is a bank precluded from exercising both the right of lien and the right of set-off simultaneously?
(A) These two rights can never be exercised simultaneously under any circumstances.
(B) When the customer has multiple accounts holding different types of currencies.
(C) When the debt in question is already guaranteed by a solvent third party.
(D) When the customer is a partnership firm and not an individual or company.

Ans :

(A) These two rights can never be exercised simultaneously under any circumstances.
The right of lien applies to goods and securities held by the bank, while the right of set-off applies to money in deposit accounts. They are distinct rights applicable to different types of assets. A bank cannot exercise a lien on a credit balance, nor can it 'set-off' a physical security. Therefore, these two rights cannot be exercised simultaneously.

Oct/Nov 2015

27. Based on the provided text, which of the following scenarios correctly illustrates the limitation of a particular lien?
"A 'Particular lien' gives the right to retain possession only of the goods in respect of which the charges or dues have arisen. In order that a particular security falls under bank's lien, the following conditions should be satisfied: (i) The property should come in the hands of the bank in its capacity as a creditor bank."
(A) A bank retaining a customer's shares to recover an unrelated personal loan default.
(B) A bank retaining a customer's fixed deposit to recover an overdraft from their current account.
(C) A lawyer retaining a client's property deeds for all outstanding legal fees.
(D) A tailor retaining a suit until the stitching charges for that specific suit are paid.

Ans :

(D) A tailor retaining a suit until the stitching charges for that specific suit are paid.
The source defines a particular lien as the right to retain goods for charges related only to those goods. A tailor retaining a suit for its own stitching charges is a classic example. The other options describe a general lien, where assets are retained for a general balance of account, which is a right available to bankers but not illustrative of a particular lien.

May/June 2013

28. Match the following items related to Banker's Lien.
List-I (Situation)
P. Articles left negligently on the bank's counter
Q. Securities deposited for a specific loan
R. Ornaments deposited for safe custody
S. Stolen goods delivered to the bank by a customer
List-II (Applicability of Lien)
1. Lien is applicable
2. Lien is not applicable as the bank is a bailee
3. Lien is not applicable as the customer has no title
4. Lien is not applicable as it was not entrusted in the course of business
(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-4, Q-1, R-2, S-3
P (Negligently left articles) matches 4, as they were not properly entrusted. Q (Securities for a specific loan) matches 1, as this is a standard

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banking transaction. R (Safe custody) matches 2, as the bank acts as a bailee. S (Stolen goods) matches 3, as the customer lacks a valid title to pass on to the bank.

Oct/Nov 2021

29. What is the fundamental principle behind the banker's right of set-off?

(A) The right to sell a customer's pledged assets to recover outstanding dues.
(B) The right to refuse payment of a cheque for any reason, including insufficient funds.
(C) The right to combine two or more accounts of the same customer to settle debts.
(D) The right to charge a higher rate of interest on a customer's outstanding credit balance.

Ans :

(C) The right to combine two or more accounts of the same customer to settle debts.
The right of set-off is the banker's right to combine a customer's accounts. Specifically, it allows the bank to use a credit balance in one account (where the bank is a debtor) to settle a debit balance in another account of the same customer (where the bank is a creditor), effectively merging the two positions to arrive at a net balance.

May/June 2024

30. For a bank to exercise its right of set-off, what must be the relationship between the bank and the customer in the two accounts being combined?

(A) Debtor-creditor in both accounts
(B) Trustee-beneficiary in both accounts
(C) Principal-agent in one account and bailor-bailee in the other
(D) Creditor-debtor in one account and debtor-creditor in the other

Ans :

(D) Creditor-debtor in one account and debtor-creditor in the other
For set-off, the bank must be a debtor to the customer in one account (e.g., a savings account with a credit balance) and a creditor of the same customer in another account (e.g., an overdrawn current account or a loan account). This mutuality of debtor-creditor relationships allows the bank to combine the accounts to settle its claim.

Oct/Nov 2008

31. Identify the correct statement regarding the exercise of the right of set-off by a banker.

(A) It can be exercised by serving a reasonable notice on the customer in an ongoing situation.
(B) It can only be exercised after obtaining a specific court order from a civil court.
(C) It can be exercised even if there is a specific verbal agreement with the customer prohibiting it.
(D) It is an implied right arising from custom and does not require any notice to the customer.

Ans :

(A) It can be exercised by serving a reasonable notice on the customer in an ongoing situation.
While set-off is a statutory right, in a normal, ongoing banking relationship, the bank is required to provide the customer with reasonable notice before exercising this right. This gives the customer an opportunity to settle the debt through other means. The right becomes automatic and requires no notice only under specific circumstances like death or insolvency.

May/June 2006

32. Which of the following is an essential feature for the right of set-off to be applicable?

(A) The debts must be for uncertain and unliquidated amounts.
(B) The claim and cross-claim must both be for determined amounts.
(C) The accounts must be in different branches of the bank.
(D) One of the debts can be a contingent liability.

Ans :

(B) The claim and cross-claim must both be for determined amounts.
A key condition for set-off is that the debts on both sides must be for certain, ascertained sums. The right cannot be applied against contingent liabilities (e.g., a guarantee that has not yet been invoked) or for unliquidated damages. Both the credit balance available and the debit balance to be recovered must be definite amounts.

Oct/Nov 2017

33. A customer has a credit balance in their savings account. They have also acted as a guarantor for a friend's loan, which is now in default. Can

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the bank set-off the savings balance against the friend's loan dues?

(A) Yes, immediately upon the borrower's default, the guarantor's account can be debited.
(B) No, not until the guarantee amount is determined and a formal demand is made on the guarantor.
(C) Yes, because a guarantor is considered equally and jointly liable for the entire debt amount.
(D) No, because personal savings accounts cannot be set-off against third-party commercial loans.

Ans :

(B) No, not until the guarantee amount is determined and a formal demand is made on the guarantor.
A guarantee represents a contingent liability. The bank cannot exercise the right of set-off against the guarantor's personal account until the liability becomes absolute and is determined. This typically happens after the principal borrower has defaulted and the bank has formally invoked the guarantee and quantified the amount due from the guarantor.

May/June 2008

34. For the purpose of exercising the right of set-off, how are the different branches of a single bank treated?

(A) As a single, unified entity
(B) As separate and distinct legal entities
(C) As separate entities, but set-off is allowed with a court order
(D) As a single entity only for customers in the same city

Ans :

(A) As a single, unified entity
Legally, all branches of a bank are considered parts of a single entity. Therefore, for the purpose of the bank exercising its right of set-off, a customer's accounts across different branches can be combined. The bank can use a credit balance in a branch in one city to set off a debit balance in a branch in another city.

Oct/Nov 2013

35. The right of set-off can be applied by a bank only to which type of debts?

(A) Debts that are contingent and may become due in the future.
(B) All debts, including those that are barred by the statute of limitations.
(C) Debts which are due and recoverable on the date of exercising the set-off.
(D) Debts owed by a third party but promised to be paid by the customer.

Ans :

(C) Debts which are due and recoverable on the date of exercising the set-off.
A fundamental condition for exercising the right of set-off is that the debt being recovered must be presently due and legally recoverable. The bank cannot apply set-off for a future debt (one that has not matured) or a contingent liability. The right to demand payment from the customer must exist at the moment the set-off is applied.

May/June 2015

36. A bank discovers that the funds in a customer's savings account are held in trust for a minor. The same customer has a defaulted personal loan with the bank. Can the bank set-off the loan dues against the trust funds?

(A) Yes, because the account is held in the customer's name and the bank is not a party to the trust.
(B) Yes, if the loan amount is greater than the trust fund, the bank can appropriate the entire balance.
(C) No, because trust funds are legally protected and cannot be used for the trustee's personal debts.
(D) No, because the funds are held in a fiduciary right, while the debt is in a personal right.

Ans :

(D) No, because the funds are held in a fiduciary right, while the debt is in a personal right.
The right of set-off requires that the debts be in the same right. In this case, the customer holds the savings account funds in a fiduciary capacity (as a trustee), while the personal loan debt is in their individual capacity. The bank cannot use funds held in trust to settle the trustee's personal debt.

Oct/Nov 2012

37. Which of the following scenarios permits a bank to exercise an automatic right of set-off without providing notice to the customer?

NODIA

(A) When the customer issues a cheque that is subsequently dishonoured.
(B) When the customer's credit score drops significantly.
(C) Upon the receipt of a garnishee order against the customer's account.
(D) When the account remains dormant for over two years.

Ans :

(C) Upon the receipt of a garnishee order against the customer's account.
Certain events trigger an automatic right of set-off, where the bank can combine accounts without prior notice. These include the death, insanity, or insolvency of the customer, the winding up of a company, or the receipt of a garnishee order. The garnishee order crystallizes the debt and compels the bank to act immediately.

May/June 2011

38. Consider the following statements about combining accounts for set-off:
1. The credit account of a deceased person can be combined with a debit account of a living customer.
2. The account of a sole proprietor's trading firm and their personal individual account can be combined.

Which of the statements is/are correct?
(A) 1 only
(B) 2 only
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(B) 2 only
Statement 2 is correct because, in the case of a sole proprietorship, the law does not distinguish between the individual and the business. They are one and the same legal entity, so their accounts can be combined. Statement 1 is incorrect as a deceased person's account and a living person's account cannot be combined due to a lack of mutuality.

Oct/Nov 2020

39. Based on the case cited, what principle is established regarding the right of set-off?
"A customer does not have a right of set-off amongst its various accounts at different branches of a bank. (Mohammed Hussein Saheb vs. Chartered Bank, Madras (1965) AIR Mod. 266.) In this case the Defendant bank had returned certain cheques drawn by the Plaintiff on his overdraft account because the drawings exceeded the limit. The Plaintiff contended that the Defendant bank at Madras ought to have honoured the cheques taking into account the deposit held in his account at Karachi branch."
(A) A bank must honour a customer's cheques if the customer has sufficient funds in any branch of the bank worldwide.
(B) The right of set-off is a bilateral right, equally available to both the customer and the bank.
(C) A bank is liable for damages if it does not automatically set-off accounts to prevent a cheque from being dishonoured.
(D) A customer cannot insist that the bank combine accounts at different branches to honour a cheque drawn on an overdrawn account.

Ans :

(D) A customer cannot insist that the bank combine accounts at different branches to honour a cheque drawn on an overdrawn account.
The ruling in Mohammed Hussein Saheb vs. Chartered Bank clarifies that the right of set-off is a unilateral right available to the bank, not the customer. A customer cannot legally compel a bank to use funds from an account in one branch to cover a withdrawal or honour a cheque on an overdrawn account at another branch.

May/June 2022

40. Mr. Gupta runs a business, 'Gupta Traders', as a sole proprietor and has a current account in its name. He also has a personal savings account in his own name at the same bank. 'Gupta Traders' current account becomes overdrawn by Rs. 50,000. His personal savings account has a balance of Rs. 80,000. What action can the bank take?
(A) The bank can set-off the overdraft in the current account against the balance in the savings account.
(B) The bank cannot take any action as business and personal accounts are separate.
(C) The bank must first file a lawsuit to recover the overdraft amount.
(D) The bank can only freeze the savings account but cannot appropriate the funds without Mr. Gupta's consent.

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Ans :

(A) The bank can set-off the overdraft in the current account against the balance in the savings account.

For a sole proprietorship, the owner and the business are considered a single legal entity. Therefore, the debts are mutual, and the accounts are held in the same right. The bank is legally entitled to combine the business account (Gupta Traders) and the personal account (Mr. Gupta) to exercise its right of set-off and recover the dues.

Oct/Nov 2023

41. Assertion (A): A bank can exercise set-off between a customer's personal loan account and their joint account held with their spouse.

Reason (R): The right of set-off requires that the debts being combined must be in the same name and in the same right.

(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(D) A is false but R is true.

Assertion (A) is false. A bank cannot set-off a personal debt against a joint account, as the ownership and rights are different. The funds in the joint account do not belong solely to the debtor. Reason (R) is true, as it correctly states the fundamental principle of mutuality required for set-off, which is precisely why the action in (A) is not permissible.

May/June 2018

42. Identify the incorrect statement regarding the situations that trigger an automatic right of set-off for a bank.

(A) The customer's account becoming dormant.
(B) Death of the customer.
(C) Insolvency of a partner in a partnership firm.
(D) Receipt of a notice of assignment of the customer's credit balances.

Ans :

(A) The customer's account becoming dormant.

The automatic right of set-off, which can be exercised without notice, is triggered by specific legal events that crystallize the customer's position, such as death, insolvency, receipt of a garnishee order, or notice of assignment. An account becoming dormant is an operational status and does not, by itself, grant the bank an automatic right of set-off.

Oct/Nov 2014

43. Which of the following combination of accounts is NOT permissible for set-off?

(A) A customer's credit balance and the same customer's debit balance.
(B) A sole proprietor's business account and his personal account.
(C) A customer's savings account and his term loan account at the same bank.
(D) A partner's personal credit balance and the firm's debit balance.

Ans :

(D) A partner's personal credit balance and the firm's debit balance.

A partnership firm is a separate legal entity from its partners for banking purposes. The debts are not considered mutual. Therefore, a bank cannot set off a partner's personal credit balance against the firm's debt, or vice-versa, unless there is a specific agreement (like a letter of set-off from the partner) allowing it.

May/June 2007

44. The right of set-off is available to the banker only in respect of what?

(A) Securities held in the customer's safe deposit locker.
(B) Credit balance held in a customer's account.
(C) Immovable property mortgaged to the bank.
(D) Gold pledged with the bank for a loan.

Ans :

(B) Credit balance held in a customer's account.

The right of set-off specifically relates to the combination of money accounts. It is the right to adjust a debit balance (money owed to the bank) against a credit balance (money held by the bank for the customer). It does not apply to physical assets like securities, property, or gold, for which the right of lien would be applicable.

Oct/Nov 2019

45. What legal issue is addressed by the 'Right of Appropriation' as per Sections 59 to 61 of the Indian Contract Act, 1872?

(A) The bank's right to take possession of a customer's property.
(B) The customer's right to appropriate funds from the bank without notice.

NODIA

(C) The allocation of a payment made by a debtor who has multiple distinct debts.
(D) The appropriation of a deceased customer's assets by the bank.

Ans :

(C) The allocation of a payment made by a debtor who has multiple distinct debts.
The Right of Appropriation, governed by Sections 59-61 of the Indian Contract Act, 1872, deals with the question of how a payment made by a debtor to a creditor should be applied when the debtor owes several distinct debts. It establishes a hierarchy for deciding which debt the payment should be credited against.

May/June 2025

46. According to the Right of Appropriation, who has the first right to decide how a payment should be applied to multiple debts?
(A) The bank (creditor)
(B) The court, based on the age of the debts
(C) The right is shared equally between the debtor and creditor
(D) The customer (debtor)

Ans :

(D) The customer (debtor)
Section 59 of the Indian Contract Act, 1872, gives the first right of appropriation to the debtor. When making a payment, the debtor can provide an express intimation or make the payment under circumstances that imply it is for a specific debt. If the creditor accepts the payment, they must apply it as directed by the debtor.

Oct/Nov 2010

47. If a customer with multiple loan accounts deposits money into the bank without giving any specific direction for its appropriation, what right does the bank have?
(A) The bank can exercise its right of appropriation and apply it to any loan account.
(B) The bank must hold the funds in a suspense account until instructions are received.
(C) The bank must apply the payment to the loan with the highest interest rate.
(D) The bank must apply the payment to the oldest outstanding debt.

Ans :

(A) The bank can exercise its right of appropriation and apply it to any loan account.
If the debtor (customer) does not specify how the payment should be appropriated, the right then passes to the creditor (bank). The bank can then apply the payment towards any lawful debt actually due and payable to it from the debtor. The bank can exercise this discretion until the payment is actually credited to an account.

May/June 2016

48. Based on this legal precedent, how should a bank appropriate a general payment made towards a loan that has both principal and interest outstanding?
"In the case M/s Kharavela Industries Pvt. Ltd. Vs. Orissa State Financial Corporation and Others (AIR 1985 Orissa 153 (A)), the Court held that in the case of debt due with interest, any payment made by the debtor is in the first instance to be applied towards satisfaction of interest and thereafter towards the principal unless there is an agreement to the contrary."
(A) The payment should be applied to the principal first to reduce the interest burden.
(B) The payment must first be applied to satisfy the outstanding interest, then the principal.
(C) The payment should be split equally between principal and interest.
(D) The bank has the discretion to apply it to either principal or interest as it sees fit.

Ans :

(B) The payment must first be applied to satisfy the outstanding interest, then the principal.
The judgment in the M/s Kharavela Industries case established a clear rule for appropriation in the absence of a specific agreement. Payments made towards a debt comprising both principal and interest must first be used to clear the outstanding interest dues. Any remaining amount from the payment is then applied towards reducing the principal balance.

Oct/Nov 2022

49. If neither the debtor nor the creditor makes any appropriation for a payment, how should the payment be applied according to law?
(A) It should be applied to the largest debt first.
(B) It should be applied in discharge of debts in order of time, including time-barred debts.
(C) It should be applied to the most recent debt first.
(D) It should be held by the creditor until a mutual agreement is reached.

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Ans :

(B) It should be applied in discharge of debts in order of time, including time-barred debts.
When neither party appropriates the payment, Section 61 of the Indian Contract Act, 1872, applies. The law dictates that the payment shall be applied towards the debts in chronological order, starting with the earliest. Importantly, this rule applies whether the debts are or are not barred by the statute of limitations.

May/June 2005

50. If there are multiple debts of equal standing (i.e., incurred at the same time) and neither party appropriates a payment, what is the legal rule for its application?
(A) The payment shall be applied in discharge of each debt proportionately.
(B) The creditor can choose which debt to discharge.
(C) The payment should be applied to the debt with the lower interest rate.
(D) The payment is returned to the debtor.

Ans :

(A) The payment shall be applied in discharge of each debt proportionately.
In the specific scenario where neither the debtor nor the creditor appropriates the payment, and there are multiple debts of equal standing (incurred simultaneously), the law provides a default solution. The payment must be applied proportionately across all such debts, ensuring that each debt is reduced in proportion to its size.

Oct/Nov 2018

51. Consider the following statements regarding authorities for account operation.
Statement 1: A mandate is a stamped document executed before a Notary Public.
Statement 2: A Power of Attorney is an authority given by an account holder for a short, temporary period.
Which of the following is correct?
(A) Statement 1 is correct, but Statement 2 is incorrect.
(B) Statement 2 is correct, but Statement 1 is incorrect.
(C) Both Statement 1 and Statement 2 are correct.
(D) Both Statement 1 and Statement 2 are incorrect.

Ans :

(D) Both Statement 1 and Statement 2 are incorrect.
Both statements misrepresent the facts. Statement 1 is incorrect because a Power of Attorney is the document that must be stamped and notarized, not a mandate. Statement 2 is incorrect because a mandate is typically for a short period, whereas a Power of Attorney is used for more extensive or long-term authority, reversing the roles described.

May/June 2023

52. A customer has three separate unsecured loans from a bank: Loan A (Rs. 20,000, taken in 2018), Loan B (Rs. 30,000, taken in 2019), and Loan C (Rs. 50,000, taken in 2020). He deposits Rs. 40,000 and tells the cashier, "Put this towards my 2020 loan." How must the bank apply this amount?
(A) The bank can apply it to any of the three loans based on its internal recovery policy.
(B) The bank must apply it to the oldest loan, Loan A, according to the rule in Clayton's case.
(C) The bank must apply it proportionately among all three loans to reduce the overall liability.
(D) The bank must apply the entire Rs. 40,000 towards Loan C as instructed.

Ans :

(D) The bank must apply the entire Rs. 40,000 towards Loan C as instructed.
According to the Right of Appropriation (Section 59, Indian Contract Act), the debtor has the first right to direct how a payment is applied. Since the customer gave an express intimation to apply the payment to the 2020 loan (Loan C), the bank is obligated to follow that instruction upon accepting the payment.

Oct/Nov 2009

53. Based on this text, in which scenario is delegation of authority NOT permissible?
"For a joint account, all joint account holders should sign the mandate/ power of attorney empowering a third party to operate it. In case of a partnership firm, all the partners must sign the PoA or mandate authorising a third party to operate its account. ... Fiduciaries such as executors, administrators and legal guardians cannot appoint agents."
(A) All partners of M/s ABC & Co. signing a POA for an agent to operate the firm's account.

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(B) Both holders of a joint account signing a mandate for their son to operate the account.
(C) An executor of a will appointing an agent to manage the finances of the deceased's estate account.
(D) The Board of Directors of a company passing a resolution to grant a POA.

Ans :

(C) An executor of a will appointing an agent to manage the finances of the deceased's estate account.
The source explicitly states that fiduciaries, a category that includes executors, cannot appoint agents. This is based on the legal principle that a person entrusted with a duty cannot delegate that duty to someone else. The other options represent situations where delegation is permissible provided the correct procedures (unanimous consent of all principals) are followed.

May/June 2012

54. Identify the incorrect pair from the following options related to the banker's special relationship.
(A) Right of Set-off : Combining customer accounts
(B) Mandate : Suitable for institutions and long-term authority
(C) Power of Attorney : Stamped and notarized document
(D) Banker's Lien : Implied pledge with right to sell

Ans :

(B) Mandate : Suitable for institutions and long-term authority
This pair is incorrect. A mandate is typically a simple letter of authority, suitable for individuals for a short or temporary period. It is the Power of Attorney (POA) that is more formal, stamped, and better suited for institutions or for granting long-term, extensive powers. The other pairs correctly describe their respective concepts.

Oct/Nov 2025

55. Which of the following constitutes a set of conditions where a bank CANNOT exercise its general lien?
(A) Securities held for a specific loan, documents held for collection, properties of the customer.
(B) Matured debts, securities held in the ordinary course of business, customer's own property.
(C) Fixed deposit receipts, shares held as collateral, promissory notes endorsed to the bank.
(D) Safe custody articles, documents deposited for a specific purpose, articles left negligently.

Ans :

(D) Safe custody articles, documents deposited for a specific purpose, articles left negligently.
This group represents the classic exceptions to the banker's right of lien. A lien cannot be exercised on safe custody articles because the bank is a bailee, on items for a specific purpose because it's inconsistent with the lien, and on negligently left articles because they were not properly bailed or entrusted to the bank.

May/June 2019

56. Mr. Kumar has a savings account with a credit balance of Rs. 1,00,000. He had taken a car loan, and the EMI of Rs. 15,000 for the current month is due. Due to an oversight, he fails to pay the EMI on the due date. The bank, after a few days, debits Rs. 15,000 from his savings account. This action by the bank is an exercise of its:
(A) Right of Set-off
(B) Right of Lien
(C) Right of Appropriation
(D) Right of Foreclosure

Ans :

(A) Right of Set-off
The bank is using the credit balance in Mr. Kumar's savings account (where the bank is a debtor) to recover the overdue EMI on his car loan (where the bank is a creditor). This act of combining a credit and a debit balance of the same customer to recover a due debt is a clear exercise of the banker's Right of Set-off.

Oct/Nov 2006

57. Consider the following statements about Banker's Lien and Right of Set-off.
1. Lien is a right over the customer's goods and securities, while Set-off is a right over money in accounts.
2. Both Lien and Set-off can only be exercised for debts that are currently due and payable.
3. A bank requires the customer's explicit permission before exercising either Lien or Set-off.
4. Lien is a statutory right under the Indian Contract Act, while Set-off is purely based on banking custom.

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Which combination of statements is correct?
(A) 1 and 2 only
(B) 1, 3 and 4
(C) 2 and 4 only
(D) 1, 2 and 3

Ans :

(A) 1 and 2 only
Statement 1 correctly distinguishes the subject matter of the two rights. Statement 2 is also correct, as both rights are applicable only for debts that are due, not contingent or future debts. Statement 3 is incorrect as these are rights of the bank, and permission is not required. Statement 4 is incorrect as set-off is also a statutory right.

May/June 2021

58. Based on this rule, if Mr. X, who has a personal loan from a bank, passes away, can the bank immediately set off the outstanding loan amount against a fixed deposit held jointly by Mr. X and his wife, Mrs. X?
"A deceased's credit account and a customer's debit account cannot be combined."
(A) No, because combining the account of a deceased person with that of a living person is not permitted.
(B) Yes, because the loan was taken by Mr. X.
(C) Yes, but only up to 50% of the fixed deposit amount.
(D) No, because fixed deposits cannot be used for set-off under any circumstances.

Ans :

(A) No, because combining the account of a deceased person with that of a living person is not permitted.
The source rule highlights the principle of mutuality. After Mr. X's death, his loan is a debt of his estate, while the joint FD now belongs to the surviving holder, Mrs. X. The parties and rights are no longer the same. Therefore, the bank cannot set off the deceased's debt against an account belonging to a living person.

Oct/Nov 2016

59. Match the term with its most appropriate description.
List-I (Term)
P. Mandate
Q. General POA
R. Particular Lien
S. Right of Appropriation
List-II (Description)
1. Right to retain specific goods for charges on those goods.
2. Governs application of payments towards multiple debts.
3. Simple authority for a short period, not for institutions.
4. Extensive powers for more than one transaction.
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2
P (Mandate) is a simple authority for a short duration (3). Q (General POA) confers extensive powers for multiple transactions (4). R (Particular Lien) is the right to retain specific goods for charges related only to them (1). S (Right of Appropriation) dictates how payments are applied across multiple debts (2).

May/June 2014

60. Assertion (A): A bank can exercise its lien on a customer's Fixed Deposit Receipt (FDR) held with it to recover an outstanding loan.
Reason (R): An FDR is a security that comes into the bank's possession in the ordinary course of business and represents a debt owed by the bank to the customer.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is not the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
Assertion (A) is true; banks commonly exercise lien over FDRs. Reason (R) correctly explains why this is possible. An FDR is considered a security that is in the bank's possession during its normal business. The bank can retain this security (the FDR) to secure the general balance of account owed by the customer, such as an outstanding loan.

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CHAPTER 8

Foreign Exchange Remittance Facilities of Individuals

Oct/Nov 2014

1. According to the evolution of foreign exchange management in India, which legislation was replaced by the Foreign Exchange Management Act (FEMA), 1999?
   (A) Defence of India Rules, 1939
   (B) Foreign Exchange Regulation Act, 1973
   (C) Foreign Exchange Regulation Act, 1947
   (D) World Trade Organization Act, 1995

   Ans :

   (B) Foreign Exchange Regulation Act, 1973
   The Foreign Exchange Management Act (FEMA) was enacted effective from June 1, 2000, to replace the earlier, more restrictive Foreign Exchange Regulation Act (FERA) of 1973. This change was initiated to align India's foreign exchange regime with the changed economic environment and the emerging framework of the World Trade Organization, reflecting a shift in government policy.

May/June 2023

2. What fundamental change did the enactment of FEMA bring regarding offences related to foreign exchange, as compared to FERA?
   (A) It reclassified foreign exchange offences from criminal offences to civil offences.
   (B) It made all foreign exchange offences non-cognizable.
   (C) It reclassified foreign exchange offences from civil offences to criminal offences.
   (D) It introduced stricter imprisonment terms for all foreign exchange violations.

   Ans :

   (A) It reclassified foreign exchange offences from criminal offences to civil offences.
   A major feature of the transition from the Foreign Exchange Regulation Act (FERA) to the Foreign Exchange Management Act (FEMA) was the reclassification of offences. Under FERA, violations were treated as criminal offences, whereas FEMA decriminalized them, treating contraventions as civil offences. This move significantly relaxed the legal regime governing foreign exchange transactions in India.

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Oct/Nov 2020

3. Under the main features of FEMA, who is empowered to impose restrictions on foreign exchange transactions?
   (A) The Reserve Bank of India
   (B) The Securities and Exchange Board of India
   (C) The Central Government
   (D) The Ministry of Finance

   Ans :

   (C) The Central Government
   The Foreign Exchange Management Act (FEMA) explicitly empowers the Central Government to impose restrictions on foreign exchange transactions. While the RBI is empowered to subject capital account transactions to restrictions, the overarching authority to impose general restrictions under the act lies with the Central Government, particularly for restricting current account transactions in the public interest.

May/June 2005

4. Which of the following statements is INCORRECT regarding the main features of the Foreign Exchange Management Act (FEMA)?
   (A) All foreign exchange transactions must be conducted through an Authorised Person.
   (B) FEMA empowers the RBI to subject capital account transactions to a number of restrictions.
   (C) Owning or holding immovable property abroad by a person living in India is restricted.
   (D) Foreign exchange transactions under the current account can never be restricted.

Ans :

(D) Foreign exchange transactions under the current account can never be restricted.
While FEMA aims to facilitate external trade, it does not permit unrestricted current account transactions. The act specifies that foreign exchange transactions under the current account can be restricted by the Central Government if it is deemed to be in the public interest. Therefore, the statement that such transactions can never be restricted is incorrect and misrepresents the provisions.

Oct/Nov 2011

5. Which type of entity is an Authorised Dealer Category I, as defined under FEMA regulations?
(A) Entities authorised to carry out only specific non-trade related current account transactions.
(B) Entities authorised to carry out only transactions incidental to their primary business activities.
(C) Entities authorised to carry out all permissible current and capital account transactions.
(D) Entities authorised only to purchase foreign exchange from non-residents and residents.

Ans :

(C) Entities authorised to carry out all permissible current and capital account transactions.
As per the definitions provided in the regulations, an Authorised Dealer Category I is an entity authorised by the Reserve Bank of India to handle the full spectrum of foreign exchange transactions. This includes all permissible current and capital account transactions, as per the directions issued by the RBI from time to time, making them key players in the forex market.

May/June 2015

6. Under FEMA definitions, which of the following is NOT included in the definition of an Authorised Dealer Category II?
(A) Upgraded Full Fledged Money Changers (FFMCs)
(B) All commercial banks operating in India
(C) Select Regional Rural Banks (RRBs)
(D) Select Urban Cooperative Banks (UCBs)

Ans :

(B) All commercial banks operating in India
Authorised Dealer Category II entities are authorised by the RBI for specified non-trade related current account transactions. The definition explicitly includes upgraded FFMCs, select RRBs, and select UCBs. It does not automatically include all commercial banks, as many of them operate as Authorised Dealer Category I, which have a much wider scope of permissible transactions.

Oct/Nov 2007

7. A transaction that alters the assets or liabilities outside India of a person resident in India is defined as what type of transaction?
(A) Current account transaction
(B) Foreign exchange transaction
(C) Foreign security transaction
(D) Capital account transaction

Ans :

(D) Capital account transaction
A capital account transaction is defined as a transaction that causes a change in the assets or liabilities, including contingent liabilities, held outside India by a person resident in India. It also includes changes to the assets or liabilities in India of a person resident outside India. This is distinct from a current account transaction, which relates to trade and services.

May/June 2018

8. Which of the following is NOT considered a current account transaction under the FEMA definitions?
(A) A transaction which alters the assets or liabilities outside India.
(B) Remittances for living expenses of parents residing abroad.
(C) Payments due as interest on loans and as net income from investments.
(D) Payments in connection with foreign trade and other current business.

Ans :

(A) A transaction which alters the assets or liabilities outside India.
A current account transaction is defined as any transaction other than a capital account transaction. It includes payments for foreign trade, services, short-term credit, interest on loans, and remittances for living expenses. A transaction that alters assets or liabilities outside India for a resident is specifically defined as a

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capital account transaction, not a current account one.

Oct/Nov 2022

9. What is the definition of 'Drawal' in the context of foreign exchange?

(A) The physical act of receiving foreign currency notes from a bank teller or ATM.

(B) The process of converting Indian Rupees to a foreign currency for travel or trade purposes.

(C) The purchase of foreign exchange from an authorised person, including using cards or opening a Letter of Credit.

(D) The deposit of foreign currency into a foreign currency account maintained in India or abroad.

Ans :

(C) The purchase of foreign exchange from an authorised person, including using cards or opening a Letter of Credit.

The term 'Drawal' encompasses the drawal of foreign exchange from an authorised person. Crucially, the definition extends beyond simple cash withdrawal to include actions like opening a Letter of Credit or using an International Credit Card, Debit Card, or ATM Card, or any similar instrument that has the effect of creating a foreign exchange liability for the user.

May/June 2012

10. How is a 'Full Fledged Money Changer' (FFMC) defined?

(A) A money changer authorised to purchase forex from non-residents and residents, and sell it for private and business travel.

(B) An entity authorised to handle all capital account transactions, including overseas investments, for individuals.

(C) A bank branch that is exclusively dedicated to foreign exchange services for corporate clients and trade finance.

(D) An entity permitted to issue foreign currency denominated loans and credit facilities to residents.

Ans :

(A) A money changer authorised to purchase forex from non-residents and residents, and sell it for private and business travel.

A Full Fledged Money Changer (FFMC) is specifically defined as a money changer that has been authorised to perform two primary functions. These are the purchase of foreign exchange from both non-residents visiting India and from residents, and the sale of foreign exchange specifically for private and business travel purposes only, distinguishing it from an Authorised Dealer.

Oct/Nov 2016

11. An investment where the sale or maturity proceeds, net of taxes, are eligible to be repatriated is known as:

(A) Foreign Portfolio Investment

(B) Investment on a non-repatriation basis

(C) Foreign Direct Investment

(D) Investment on a repatriation basis

Ans :

(D) Investment on a repatriation basis

The term 'Investment on repatriation basis' refers to an investment where the proceeds from its sale or maturity, after deducting applicable taxes, can be freely transferred out of the country. This is in contrast to an 'Investment on non-repatriation basis', where such proceeds are required to be retained within India and cannot be sent abroad.

May/June 2019

12. As per the definition under Section 7(A) of the Citizenship Act, 1955, which person is NOT eligible for registration as an Overseas Citizen of India (OCI) Cardholder?

(A) A person who was a citizen of India at the time of the commencement of the Constitution.

(B) A person who is or had been a citizen of Pakistan or Bangladesh.

(C) A minor child whose both parents are citizens of India.

(D) A spouse of foreign origin of a citizen of India whose marriage has subsisted for at least two years.

Ans :

(B) A person who is or had been a citizen of Pakistan or Bangladesh.

The eligibility criteria for an Overseas Citizen of India (OCI) Cardholder explicitly exclude certain individuals. A specific proviso states that no person, who or either of whose parents, grandparents, or great grandparents is or had been a citizen of Pakistan, Bangladesh, or other specified countries, shall be eligible for registration as an OCI Cardholder, irrespective of other qualifications.

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Oct/Nov 2010

13. Which of the following entities is NOT included in the definition of a 'Person' under FEMA?
(A) A Hindu undivided family
(B) A partnership firm
(C) An artificial juridical person
(D) A minor child below the age of 10

Ans :

(D) A minor child below the age of 10
The definition of 'Person' under FEMA is very broad and inclusive. It covers an individual, a Hindu undivided family, a company, a firm, an association of persons, and every artificial juridical person. While an individual is included, there is no specific exclusion or separate category based on age, meaning a minor child is covered under the term 'individual'.

May/June 2021

14. What is the primary condition for an individual to be considered a 'Person resident in India' for a financial year?
(A) Residing in India for more than 90 days during the preceding financial year.
(B) Residing in India for more than 180 days during the preceding financial year.
(C) Residing in India for the entire duration of the preceding financial year.
(D) Residing in India for more than 182 days during the preceding financial year.

Ans :

(D) Residing in India for more than 182 days during the preceding financial year.
The fundamental criterion for determining residency status under FEMA is the duration of stay in the preceding financial year. A person is considered a 'Person resident in India' if they have resided in the country for more than one hundred and eighty-two days during the course of the preceding financial year, subject to certain exceptions based on their purpose of stay.

Oct/Nov 2025

15. According to the exceptions to the residency rule under FEMA, which of the following individuals would be considered a 'Person resident outside India' even if they stayed in India for 200 days in the preceding financial year?
(A) An individual who left India to take up a permanent job in another country.
(B) A tourist who visited India for an extended vacation.
(C) A student who came to India for a six-month course.
(D) A foreign citizen on a short-term business assignment in India.

Ans :

(A) An individual who left India to take up a permanent job in another country.
The definition of 'Person resident in India' includes exceptions to the 182-day rule. A person who has gone out of India for taking up employment outside India is explicitly excluded from being a 'Person resident in India', regardless of their stay in the preceding year. This is because their intention is to stay outside India, which overrides the simple duration-of-stay test.

May/June 2008

16. Which of the following relationships is NOT included in the definition of 'Relative' as per Section 2(77) of the Companies Act, 2013, mentioned in the chapter?
(A) Son's wife
(B) Brother's wife
(C) Daughter's husband
(D) Step-father

Ans :

(B) Brother's wife
The list of relatives, as defined under the Companies Act, 2013, and referenced in the chapter, is specific. It includes relationships like father, mother (including step-parents), son, son's wife, daughter, daughter's husband, brother, and sister (including step-siblings). However, the list does not extend to include the spouse of a sibling, such as a brother's wife.

Oct/Nov 2013

17. The act of buying or drawing foreign exchange from an authorised dealer in India and remitting it outside India through banking channels is defined as:
(A) Remittance of assets
(B) Repatriation outside India
(C) Foreign exchange drawal
(D) Capital account transfer

Ans :

(B) Repatriation outside India
'Repatriation outside India' is specifically defined as the process of purchasing or drawing foreign

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exchange from an authorised dealer within India and then sending it to a destination outside India via approved banking channels. This can also include crediting a foreign currency denominated account or a specific type of Indian currency account from which it can be converted.

May/June 2011

18. What is the general rule regarding bringing foreign exchange into India?

(A) It can be brought into India without limit, but is subject to procedural declarations at customs.

(B) It is prohibited without a special license from the RBI for amounts exceeding a certain threshold.

(C) It is limited to an aggregate value of USD 10,000 per person per financial year.

(D) It is only permitted for non-residents and foreign tourists, with residents requiring special permission.

Ans :

(A) It can be brought into India without limit, but is subject to procedural declarations at customs.
The basic provision under FEMA is that foreign exchange in any form can be brought into India without any specified limit. However, this freedom is subject to certain procedures and provisions, most notably the requirement to declare the foreign exchange to Customs Authorities via a Currency Declaration Form (CDF) if the amount exceeds specified thresholds for currency notes or total value.

Oct/Nov 2006

19. A Currency Declaration Form (CDF) must be submitted to Customs Authorities when a person brings foreign exchange into India if the value of foreign currency notes exceeds:

(A) USD 3,000 or its equivalent

(B) USD 10,000 or its equivalent

(C) USD 5,000 or its equivalent

(D) USD 1,000 or its equivalent

Ans :

(C) USD 5,000 or its equivalent
While there is no limit on bringing foreign exchange into India, a declaration is mandatory under certain conditions. A person must file a Currency Declaration Form (CDF) if the aggregate value of foreign currency notes, bank notes, or traveler's cheques exceeds USD 10,000, OR if the value of foreign currency notes alone exceeds USD 5,000 or its equivalent.

May/June 2022

20. Mr. Sharma, a resident individual, returns to India carrying foreign currency notes worth USD 4,000 and traveler's cheques worth USD 7,000. What is his obligation regarding the Currency Declaration Form (CDF)?

(A) He does not need to file a CDF as the currency notes are below USD 5,000.

(B) He only needs to declare the traveler's cheques worth USD 7,000.

(C) He is exempt from filing a CDF as he is a resident returning from a business trip.

(D) He must file a CDF because the total value of foreign exchange exceeds USD 10,000.

Ans :

(D) He must file a CDF because the total value of foreign exchange exceeds USD 10,000.
The rules for filing a CDF have two conditions. A declaration is required if foreign currency notes exceed USD 5,000, or if the total value of all foreign exchange instruments (notes and traveler's cheques combined) exceeds USD 10,000. In this case, Mr. Sharma's total foreign exchange is USD 11,000, which is above the USD 10,000 threshold.

Oct/Nov 2017

21. What is the maximum amount of cash in Indian Rupees that an Authorised Dealer can pay to a resident individual for the purchase of foreign currency notes per transaction?

(A) USD 5,000 or equivalent

(B) USD 3,000 or equivalent

(C) USD 1,000 or equivalent

(D) USD 10,000 or equivalent

Ans :

(C) USD 1,000 or equivalent
When an Authorised Person purchases foreign currency notes or traveler's cheques, the payment in cash is subject to limits. For transactions with resident persons, the cash payment in Indian Rupees is restricted to a maximum of USD 1,000 or its equivalent per transaction. For amounts exceeding this, payment must be made through banking channels like cheques or electronic transfers.

NODIA

May/June 2009

22. What is the primary purpose of an Encashment Certificate issued by an Authorised Person?

(A) To allow residents to take unspent Indian currency out of India beyond the permissible limit.

(B) To serve as official proof for non-residents to reconvert unspent Indian currency back into foreign currency.

(C) To act as a permit for bringing more than USD 10,000 into India without a customs declaration.

(D) To provide a tax exemption on foreign exchange transactions for tourists and non-residents.

Ans :

(B) To serve as official proof for non-residents to reconvert unspent Indian currency back into foreign currency.

An Encashment Certificate is issued by an Authorised Person upon purchasing foreign currency from residents or non-residents. Its main utility is for non-residents, who are advised that any unspent local currency they hold can be converted back into foreign currency upon their departure only against the production of a valid Encashment Certificate as proof of conversion.

Oct/Nov 2012

23. A non-resident can take out foreign exchange from India up to what amount?

(A) A maximum of USD 10,000.

(B) A maximum of USD 5,000 in currency notes.

(C) Any amount, provided it is declared at the time of departure.

(D) An amount not exceeding the amount they originally brought into India.

Ans :

(D) An amount not exceeding the amount they originally brought into India.

Non-residents are granted general permission to take foreign exchange out of India. However, this permission is limited to an amount that does not exceed the foreign exchange they originally brought into the country. Compliance with declaration norms upon entry and obtaining encashment certificates upon conversion are key to availing this facility smoothly upon departure.

May/June 2024

24. A foreign tourist in India, who is not an NRI, wants to reconvert her unspent Indian Rupees to USD. She has lost her encashment certificate but has an ATM slip for a INR 40,000 withdrawal. What must she provide to an Authorised Person for this reconversion?

(A) Her Passport, Visa, and a confirmed air ticket for departure, and the original ATM withdrawal slip.

(B) Only her valid Passport and Visa, as she is a foreign national.

(C) Her Passport, Visa, and a notarized self-declaration about the lost certificate.

(D) She cannot reconvert any amount without an encashment certificate under any circumstances.

Ans :

(A) Her Passport, Visa, and a confirmed air ticket for departure, and the original ATM withdrawal slip.

FEMA regulations provide a specific facility for foreign tourists (not NRIs) to reconvert unspent rupees from ATM withdrawals up to INR 50,000 without an encashment certificate. To do so, they must present their valid Passport and Visa, an air ticket confirmed for departure within the next seven days, and the original ATM withdrawal slip.

Oct/Nov 2019

25. Under what condition can an Authorised Person reconvert unspent Indian currency up to INR 10,000 for a non-resident without an encashment certificate?

(A) The non-resident must be departing within 24 hours and provide their flight details.

(B) The non-resident must be a citizen of a SAARC country and provide proof of nationality.

(C) The non-resident provides a valid reason for the missing certificate and is departing within seven days.

(D) This facility is only available at international airports and requires manager approval.

Ans :

(C) The non-resident provides a valid reason for the missing certificate and is departing within seven days.

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An exception to the encashment certificate rule allows for the reconversion of unspent Indian currency up to INR 10,000. This is permitted provided the Authorised Person is satisfied with the bonafide reasons for not possessing the certificate, and the non-resident's departure from India is scheduled within the following seven days.

May/June 2017

26. Foreign exchange due or accrued to a resident individual, such as for services rendered, must be surrendered to an authorised person within how many days from the date of its receipt?
(A) 90 days
(B) 180 days
(C) 120 days
(D) 365 days

Ans :

(B) 180 days
The general rules on inward remittances mandate that any foreign exchange that has become due or has accrued to a person resident in India must be sold or surrendered to an authorised person. This action must be completed within a period of 180 days from the date on which the foreign exchange was received or accrued.

Oct/Nov 2021

27. Which of the following is described as a simple but time-consuming inward remittance method that usually takes 20-25 days for the recipient to get the funds?
(A) Bank Wire Transfer
(B) Direct Deposit/ACH Transfer
(C) Remittance Cards
(D) Foreign Currency Cheques

Ans :

(D) Foreign Currency Cheques
While a foreign currency cheque is a simple method where the remitter sends a cheque to the recipient in India, it is known to be very time-consuming. The process involves the recipient depositing the cheque and the bank clearing it internationally, which typically takes between 20 to 25 days, although courier services can slightly reduce this timeframe.

May/June 2013

28. Which inward remittance method is recommended for an NRI who needs to send money to India on a regular basis for family expenses?
(A) Direct Deposit/ACH Transfer
(B) Foreign Currency Drafts
(C) Bank Money Orders
(D) Foreign Currency Cheques

Ans :

(A) Direct Deposit/ACH Transfer
The Direct Deposit/Automated Clearing House (ACH) Transfer method is specifically recommended for regular, recurring remittances. In this method, the NRI authorizes a bank in India to directly withdraw funds from their foreign bank account as per standing instructions. This is efficient and suitable for NRIs who need to send money home on a regular basis.

Oct/Nov 2005

29. What is the specified limit under FEMA for the amount of money that can be brought into India as an inward remittance?
(A) USD 250,000 per financial year.
(B) USD 1,000,000 per transaction.
(C) FEMA does not specify any limit.
(D) USD 100,000 per person.

Ans :

(C) FEMA does not specify any limit.
To encourage foreign exchange inflows, the Foreign Exchange Management Act (FEMA) does not impose any upper limit on the amount of money that can be brought into India through inward remittances. Individuals can freely remit any amount of money to India either to their own accounts or to those of their relatives for bonafide purposes.

May/June 2006

30. Current account transactions for outward remittances are categorized into three schedules. What does Schedule I cover?
(A) Transactions permitted with prior RBI approval.
(B) Transactions permitted up to a certain threshold by Authorised Dealers.
(C) Transactions requiring approval from the Ministry of Finance.
(D) Transactions that are expressly prohibited.

Ans :

(D) Transactions that are expressly prohibited.

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The Foreign Exchange Management (Current Account Transactions) Rules, 2000, categorize transactions into three schedules. Schedule I lists transactions for which the release of foreign exchange is expressly prohibited. These include remittances for lottery winnings, purchase of banned magazines, and income from racing, among others, and no permission can be granted for them.

Oct/Nov 2023

31. Based on the Schedule I list of prohibited transactions, which of the following outward remittances would be forbidden?
(A) Sending money to purchase a ticket for a UK national lottery draw.
(B) Payment for a subscription to a foreign academic journal.
(C) Remittance of funds to participate in an international online chess tournament.
(D) Payment of fees for an online course on horse riding.

Ans :

(A) Sending money to purchase a ticket for a UK national lottery draw.
Schedule I explicitly prohibits remittance for the purchase of lottery tickets. Therefore, sending money to acquire a ticket for a foreign lottery, such as the UK national lottery, is a transaction that is expressly forbidden. The other options relate to education, a permissible hobby (chess), or training, which are not prohibited under this rule.

May/June 2014

32. Which of the following outward remittances is a prohibited transaction under Schedule I?
(A) Remittance for a gift to a relative abroad.
(B) Remittance of interest income on funds held in a Non-Resident Special Rupee (Account) Scheme.
(C) Payment of commission on exports under Rupee State Credit Route, exceeding 10% of invoice value.
(D) Remittance for medical treatment abroad.

Ans :

(B) Remittance of interest income on funds held in a Non-Resident Special Rupee (Account) Scheme.
Schedule I of the Current Account Transaction Rules lists several prohibited remittances. Among them is the remittance of interest income earned on funds that are held in a Non-Resident Special Rupee (NRSR) Account. This type of remittance is expressly forbidden, unlike remittances for gifts or medical treatment which are permissible under Schedule III.

Oct/Nov 2015

33. Remittances made from which of the following accounts are exempt from the requirement of prior approval for transactions covered under Schedule II and Schedule III?
(A) NRO and NRE Accounts
(B) Resident Savings Bank Accounts only
(C) Resident Foreign Currency (RFC) and Exchange Earners' Foreign Currency (EEFC) Accounts
(D) Only Demat accounts holding foreign securities

Ans :

(C) Resident Foreign Currency (RFC) and Exchange Earners' Foreign Currency (EEFC) Accounts
For transactions that fall under Schedule II (requiring government approval) or Schedule III (requiring RBI approval beyond a limit), an exemption is provided. If the remittance is made out of funds held in a Resident Foreign Currency (RFC) Account or an Exchange Earners' Foreign Currency (EEFC) Account, the requirement for prior approval is waived.

May/June 2025

34. For which purpose does an outward remittance require prior approval from the Ministry of Human Resources Development (Department of Education and Culture)?
(A) Emigration
(B) Studies abroad exceeding USD 250,000(C) Sponsorship of sports activity exceeding USD 100,000
(D) Cultural Tours

Ans :

(D) Cultural Tours
Schedule II of the Current Account Transaction Rules specifies transactions that require prior approval from the concerned ministry of the Central Government. The remittance of foreign exchange for the purpose of 'Cultural Tours' specifically requires approval from the Ministry

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of Human Resources Development, under its Department of Education and Culture.

Oct/Nov 2009

35. Under Schedule II, which authority must approve a remittance of USD 15,000 by a state government for an advertisement in foreign media to promote a local festival?

(A) Ministry of Finance, (Department of Economic Affairs)
(B) Ministry of Human Resources Development
(C) Ministry of Surface Transport
(D) No approval is required as it promotes a local festival.

Ans :

(A) Ministry of Finance, (Department of Economic Affairs)
The rules state that for an advertisement in foreign print media by a state government exceeding USD 10,000, for purposes other than promoting tourism or foreign investment, approval is required. Promoting a local festival falls into this category, and the amount exceeds the threshold, thus requiring approval from the Ministry of Finance (Department of Economic Affairs).

May/June 2010

36. Match the purpose of remittance (List-I) with the approving authority required under Schedule II (List-II).

	List-I (Purpose)		**List-II (Approving Authority)**
P.	Remittance of freight of vessel chartered by a PSU	1.	Ministry of Finance (Insurance Division)
Q.	Remittance for membership of P&I Club	2.	Ministry of Information and Broadcasting
R.	Remittance of hiring charges of transponders by TV Channels	3.	Ministry of Human Resources Development
S.	Sponsorship of sports activity abroad exceeding USD 100,000	4.	Ministry of Surface Transport (Chartering Wing)

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-3, R-4, S-1

Ans :

(A) P-4, Q-1, R-2, S-3
According to the Schedule II table: Remittance of freight of a vessel chartered by a PSU requires approval from the Ministry of Surface Transport (Chartering Wing). Membership of P&I Club requires approval from the Ministry of Finance (Insurance Division). Hiring charges for transponders by TV channels require Ministry of Information and Broadcasting approval. Sponsorship of sports over USD 100,000 requires Ministry of Human Resources Development approval.

Oct/Nov 2008

37. Which of the following purposes for outward remittance falls under Schedule III and is covered within the Liberalised Remittance Scheme (LRS) limit of USD 250,000?

(A) Remittance for purchase of lottery tickets
(B) Payment related to "Call Back Services" of telephones
(C) Remittance out of racing winnings
(D) Private visits to any country (except Nepal and Bhutan)

Ans :

(D) Private visits to any country (except Nepal and Bhutan)
Schedule III transactions are those that can be permitted by Authorised Dealers up to a specified threshold, which is now subsumed under the LRS limit of USD 250,000. Private visits to foreign countries (other than Nepal and Bhutan) are a key example of a permissible current account transaction under this schedule and scheme. The other options are prohibited under Schedule I.

May/June 2020

38. For which purpose can an individual avail of foreign exchange in excess of the LRS limit, provided it is required by the concerned foreign institution?

(A) Emigration
(B) Gift or donation
(C) Business travel
(D) Private visits

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Ans :

(A) Emigration

While most transactions are capped at the LRS limit, Schedule III provides exceptions. For emigration, an individual can avail of foreign exchange exceeding the LRS limit if the amount is specifically required by the country of emigration. Similarly, excess amounts can be availed for overseas medical treatment or studies if required by the hospital or university, respectively.

Oct/Nov 2024

39. Who is defined as a 'resident but not permanently resident' and permitted to remit up to their net salary?

(A) An Indian citizen working for an Indian company on a short-term project abroad.
(B) A Non-Resident Indian who has returned to India for a period of two years for a specific project.
(C) A citizen of a foreign state (excluding Pakistan) on deputation to an office or branch in India.
(D) A student from a foreign country studying in an Indian university on a long-term visa.

Ans :

(C) A citizen of a foreign state (excluding Pakistan) on deputation to an office or branch in India.

The rules define a 'resident but not permanently resident' person under two categories. One is a citizen of a foreign state (not Pakistan) resident in India. The other is an Indian citizen on deputation to a foreign company's venture in India. Such persons are permitted to remit their net salary abroad after deductions like taxes and provident fund contributions.

May/June 2007

40. Authorised Dealer Category II (AD-Cat II) entities are licensed by the RBI to undertake which type of transactions?

(A) A range of non-trade related current account transactions.
(B) All capital account transactions.
(C) Trade-related current account transactions like import/export financing.
(D) Issuance of Letters of Credit for international trade.

Ans :

(A) A range of non-trade related current account transactions.

The RBI grants licenses to entities as AD-Cat II to enhance foreign exchange facilities for customers. Their scope is specifically limited to undertaking a range of non-trade current account transactions. This includes services like private and business travel, overseas education remittances, medical treatment abroad, and fee payments for global conferences, differentiating them from AD-Cat I banks.

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May/June 2016

41. Which of the following remittances is a permissible activity for an Authorised Dealer Category II?

(A) Remittance for equity investment in an overseas joint venture.
(B) Financing for import of capital goods.
(C) Remittance of dividend by a company where dividend balancing is applicable.
(D) Disbursement of crew wages.

Ans :

(D) Disbursement of crew wages.

The list of transactions permitted for AD-Cat II entities includes various non-trade current account remittances. Among the specified activities are remittances for overseas education, medical treatment, visa fees, and the disbursement of crew wages. Capital account transactions and financing for trade are outside their permitted scope, being the domain of AD-Cat I banks.

Oct/Nov 2018

42. A resident individual pays a hospital in India in Indian Rupees for the medical expenses of his visiting NRI brother, who is a close relative as per the Companies Act, 2013. How is this transaction treated under FEMA?

(A) As an outward remittance under the LRS.
(B) As a resident to resident transaction which is generally permitted.
(C) As a prohibited transaction.
(D) As a capital account transaction requiring RBI approval.

Ans :

(B) As a resident to resident transaction which is generally permitted.

This specific scenario is clarified in the regulations. When a resident individual pays

in Indian Rupees for expenses like medical treatment for a visiting NRI close relative, it is considered a resident-to-resident transaction. It falls under the general permission to make rupee payments for expenses of a person resident outside India who is on a visit to India.

Oct/Nov 2025

43. Drawal of foreign exchange by any person is explicitly prohibited for which of the following purposes?

(A) Travel for business purposes.
(B) Medical treatment abroad.
(C) Travel to Nepal and/or Bhutan.
(D) Emigration to Canada.

Ans :

(C) Travel to Nepal and/or Bhutan.
The rules explicitly prohibit the drawal of foreign exchange for travel to Nepal and/or Bhutan. Transactions with these countries are generally settled in Indian Rupees. This prohibition is distinct from the rules for other countries, where foreign exchange drawal is permitted for purposes like business travel, medical treatment, or emigration under specified schemes and limits.

May/June 2023

44. Can a resident individual use an International Credit Card (ICC) to purchase a subscription to a banned or proscribed magazine online?

(A) Yes, because there is no monetary ceiling for internet transactions on ICCs.
(B) Yes, but only if the transaction value is below USD 100.
(C) No, unless prior approval from the RBI is obtained for the transaction.
(D) No, ICCs cannot be used for any prohibited items or services.

Ans :

(D) No, ICCs cannot be used for any prohibited items or services.
While residents can use ICCs for various online purchases, their use is strictly forbidden for items listed as prohibited under Schedule I. This includes the purchase of lottery tickets, banned or proscribed magazines, participation in sweepstakes, and payment for call-back services. The nature of the item, not the value, determines the prohibition.

Oct/Nov 2014

45. What is the rule regarding the settlement of charges on an International Credit Card (ICC) issued to an NRI/PIO by an Authorised Dealer in India?

(A) It must be settled exclusively from inward remittances or balances held in their NRE/FCNR accounts.
(B) It can be settled from the resident relative's account in India, provided they are a co-signer.
(C) It can be settled by paying cash in Indian Rupees at any branch, up to a certain limit.
(D) It can be settled from their NRO account without any restrictions, just like a domestic card.

Ans :

(A) It must be settled exclusively from inward remittances or balances held in their NRE/FCNR accounts.
Authorised Dealers are permitted to issue ICCs to NRIs and PIOs without RBI's prior approval. However, there is a strict condition attached to the settlement of charges incurred on such cards. The settlement must be made by the cardholder exclusively from funds received through inward remittances or from balances held in their Non-Resident (External) or Foreign Currency (Non-Resident) accounts.

May/June 2011

46. A resident Indian has an unutilized balance on a prepaid travel card after returning from a trip. What is the minimum waiting period from the date of the last transaction before they can request a refund?

(A) 24 hours
(B) 10 days
(C) 3 days
(D) There is no waiting period.

Ans :

(B) 10 days
For prepaid travel cards, residents are permitted to get a refund of the unutilized foreign exchange balance. However, this refund can only be processed after a waiting period of 10 days from the date of the last transaction on the card. This delay allows for the settlement of any pending or unclaimed authorized transactions with acquiring merchants.

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Oct/Nov 2006

47. When processing a refund for an unutilized balance on a prepaid travel card, what is the maximum small balance an Authorised Person can retain to meet potential pipeline transactions?
(A) USD 25
(B) USD 50
(C) USD 250
(D) USD 100

Ans :

(D) USD 100
When an Authorised Person redeems the unutilized balance on a prepaid travel card, they are allowed to temporarily retain certain amounts. This includes a small balance, not exceeding USD 100, which is held to cover any 'pipeline transactions' that may arise until the completion of the respective settlement cycle, after which the remaining amount is also refunded.

May/June 2018

48. Which of the following entities is eligible to make remittances under the Liberalised Remittance Scheme (LRS)?
(A) A resident individual, including a minor
(B) A partnership firm
(C) A Hindu Undivided Family (HUF)
(D) A registered trust

Ans :

(A) A resident individual, including a minor
The Liberalised Remittance Scheme (LRS) is specifically designed for and available to resident individuals. The scheme explicitly includes minors as eligible persons. Conversely, it is not available to entities such as corporates, partnership firms, Hindu Undivided Families (HUF), or Trusts, which have different regulations governing their overseas remittances and investments.

Oct/Nov 2010

49. What is the maximum amount a resident individual can remit in a financial year (April-March) under the Liberalised Remittance Scheme (LRS) without prior RBI permission?
(A) USD 100,000
(B) USD 200,000
(C) USD 250,000
(D) USD 500,000

Ans :

(C) USD 250,000
The Liberalised Remittance Scheme (LRS) allows resident individuals to remit funds abroad for permissible current and capital account transactions. The maximum amount permitted per person in any single financial year (from April to March) is set at USD 250,000 or its equivalent. Any remittance exceeding this limit requires prior approval from the Reserve Bank of India.

May/June 2021

50. A family of four (husband, wife, and two minor children), with the husband and wife as co-owners, wants to jointly purchase a property abroad. What is the maximum amount they can collectively remit under LRS in one financial year for this purpose?
(A) USD 1,000,000, by clubbing the limits of all four family members.
(B) USD 250,000, as the property is one unit.
(C) USD 500,000, by clubbing the limits of the husband and wife only.
(D) USD 750,000, by clubbing the limits of all except the younger minor.

Ans :

(A) USD 1,000,000, by clubbing the limits of all four family members.
The LRS allows for the consolidation of remittances for family members, as each individual (including minors) has their own limit of USD 250,000. For capital account transactions like purchasing property, clubbing is permitted if the family members are co-owners/co-partners. Thus, the family of four can legally remit a total of $4 \times$ USD 250,000 = USD 1,000,000.

Oct/Nov 2022

51. Based on the rules governing the Liberalised Remittance Scheme (LRS), which of the following is NOT a permitted capital account transaction?
(A) Buying an apartment in London.
(B) Opening a bank account with a bank in the USA.
(C) Extending a loan in Indian Rupees to an NRI son.
(D) Remitting margin money to an overseas exchange for futures trading.

Ans :

(D) Remitting margin money to an overseas exchange for futures trading.
While the LRS permits a wide range of capital account transactions, the rules explicitly state

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that remittance for margins or margin calls to overseas exchanges or counterparties is not allowed under the scheme. The other options—purchasing property, opening a foreign bank account, and extending loans to NRI relatives—are all explicitly listed as permissible transactions.

May/June 2015

52. What is the cash limit in foreign currency notes for a traveler proceeding to Iraq or Libya under the LRS?

(A) Not exceeding USD 3,000 per visit.
(B) Not exceeding USD 5,000 per visit.
(C) Not exceeding USD 10,000 per visit.
(D) Full exchange amount may be released in the form of cash.

Ans :

(B) Not exceeding USD 5,000 per visit.
Within the overall LRS ceiling, there are sub-limits on how much can be carried as cash (foreign currency notes and coins). For travelers going to most countries, this is USD 3,000. However, for those proceeding to Iraq or Libya, a higher cash limit of up to USD 5,000 per visit or its equivalent is permitted.

Oct/Nov 2016

53. For a resident individual going abroad for medical treatment, what is the remittance limit under LRS?

(A) Strictly capped at USD 250,000 per financial year, with no exceptions permitted.
(B) Strictly capped at USD 500,000 per financial year, provided a doctor's estimate is submitted.
(C) Up to USD 250,000 without an estimate, and beyond that based on an estimate from a doctor or hospital abroad.
(D) Unlimited remittance is allowed without any documentation, as it is a medical emergency.

Ans :

(C) Up to USD 250,000 without an estimate, and beyond that based on an estimate from a doctor or hospital abroad.
For medical treatment abroad, an individual can remit up to USD 250,000 per financial year without needing to provide an estimate from a hospital or doctor. If the required amount exceeds this limit, Authorised Dealers can permit the higher remittance under general permission, based on an estimate provided by a doctor in India or a hospital/doctor abroad.

May/June 2019

54. Which of the following is a prohibited activity under the Liberalised Remittance Scheme (LRS)?

(A) Extending a loan in INR to an NRI relative who is on the specified list of relatives.
(B) Gifting money to a person residing outside India who is not a designated close relative.
(C) Purchasing objects of art, such as paintings or sculptures, subject to the Foreign Trade Policy.
(D) Banks extending credit or loan facilities to individuals for making capital account remittances under LRS.

Ans :

(D) Banks extending credit or loan facilities to individuals for making capital account remittances under LRS.
The LRS rules contain specific prohibitions to prevent misuse. One key prohibition is that banks are not allowed to extend any form of credit facility, such as a loan, to a resident individual for the purpose of facilitating a capital account remittance under the scheme. The remittance must be made from the individual's own funds.

Oct/Nov 2017

55. What two key documents must a resident individual provide to an Authorised Dealer to make a remittance under the LRS?

(A) Form A2 and PAN card
(B) Passport and Visa
(C) Bank statement for the last 6 months and a self-declaration
(D) Air ticket and hotel booking confirmation

Ans :

(A) Form A2 and PAN card
To process a remittance under the Liberalised Remittance Scheme, Authorised Dealers are required to obtain specific documentation. The resident individual must furnish Form A2 for the purchase of foreign exchange and, critically, must provide their Permanent Account Number (PAN). Making PAN mandatory helps in tracking the remittances against the individual's annual LRS limit.

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May/June 2005

56. What is the maximum amount of foreign currency, travellers' cheques, and currency notes that a returning traveller is permitted to retain beyond the 180-day surrender period for future use?
(A) USD 1,000
(B) USD 2,000
(C) USD 5,000
(D) USD 10,000

Ans :

(B) USD 2,000
While unspent foreign exchange must generally be surrendered within 180 days, an exception is made for returning travellers. They are permitted to retain foreign currency, including travellers' cheques and currency notes, up to a total value of USD 2,000. This retained amount can be used for their subsequent visits abroad, providing a convenient facility for frequent travellers.

Oct/Nov 2007

57. Assertion (A): An Authorised Person must refuse to purchase foreign exchange from a resident if it is surrendered after the prescribed 180-day period has expired.
Reason (R): The 180-day surrender period is a strict, non-negotiable deadline under FEMA.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(D) (A) is false but (R) is true.
The statement (A) is false. The rules explicitly state that an Authorised Person should not refuse to purchase foreign exchange simply because the 180-day period has expired. While the 180-day period (R) is the prescribed rule, the AP must still accept the currency, though they may report the delay. The primary obligation is to bring forex into the system.

May/June 2008

58. Under the Indo-Nepal Remittance Facility Scheme, a person can make up to 12 cash remittances per year, with each transaction capped at INR 50,000. What is the maximum total amount that can be remitted in cash in a single year?
(A) INR 600,000
(B) INR 2,00,000
(C) INR 2,400,000
(D) INR 50,000

Ans :

(A) INR 600,000
The scheme allows cash remittances up to INR 50,000 per transaction. It also specifies a maximum of 12 such remittances in a year for cash-based transactions. Therefore, the maximum total amount that can be remitted in cash by a single person in one year is the per-transaction limit multiplied by the number of transactions (INR $50,000 \times 12 =$ INR 600,000).

Oct/Nov 2013

59. The Indo-Nepal Remittance Facility Scheme was designed to leverage which existing payment ecosystem for originating cross-border remittances?
(A) Real Time Gross Settlement (RTGS)
(B) Society for Worldwide Interbank Financial Telecommunication (SWIFT)
(C) National Electronic Funds Transfer (NEFT)
(D) Unified Payments Interface (UPI)

Ans :

(C) National Electronic Funds Transfer (NEFT)
The Indo-Nepal Remittance Facility Scheme was specifically designed to utilize the robust and widespread National Electronic Funds Transfer (NEFT) ecosystem for the origination of these cross-border payments. This allows remittances to be sent from various bank branches across India to Nepal in a secure, efficient, and formal manner, leveraging existing domestic payment infrastructure.

May/June 2012

60. A Nepalese worker without a bank account in India wishes to remit INR 40,000 in cash to his family in Nepal under the Indo-Nepal Remittance Scheme. What must the bank do to process this transaction?
(A) Process the transaction after obtaining and verifying an official identification document from the remitter.
(B) Refuse the transaction as the remitter is a non-account holder and cannot be verified.

NODIA

(C) Limit the transaction to INR 25,000 as it is the first cash remittance from a non-customer.
(D) Instruct the worker to first open a basic savings bank account before the remittance can be processed.

Ans :

(A) Process the transaction after obtaining and verifying an official identification document from the remitter.
The scheme is designed to serve migrant workers, including those without bank accounts. Banks can accept cash from non-customers up to the INR 50,000 limit. For such transactions, the originating bank must complete customer due diligence by obtaining and capturing details from an identification document like a Passport, PAN, Driving License, or an employer's certificate with a photograph.

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CHAPTER 9

Operational Aspects of NRI Business

Oct/Nov 2011

1. Under which legislative framework is the Reserve Bank of India empowered to frame regulations concerning the maintenance of deposits between a person resident in India and a person resident outside India?

(A) Banking Regulation Act, 1949
(B) Foreign Exchange Management Act (FEMA)
(C) Reserve Bank of India Act, 1934
(D) Negotiable Instruments Act, 1881

Ans :

(B) Foreign Exchange Management Act (FEMA)
The Foreign Exchange Management Act (FEMA) is the primary legislation that empowers the RBI to create regulations that restrict, regulate, and prohibit the maintenance of deposits and other financial transactions between residents and non-residents. This framework is crucial for managing the country's foreign exchange resources and facilitating international trade and investment under a controlled regime.

May/June 2024

2. Which of the following categories of individuals are generally eligible for the special banking facilities designed for the Indian diaspora?

(A) Non-resident Indians (NRIs), Persons of Indian Origin (PIOs), and Overseas Citizens of India (OCI) cardholders
(B) Non-resident Indians (NRIs) and Overseas Citizens of India (OCI) cardholders only
(C) Persons of Indian Origin (PIOs) and foreign tourists of Indian descent
(D) Only Non-resident Indians (NRIs) who hold an Indian passport

Ans :

(A) Non-resident Indians (NRIs), Persons of Indian Origin (PIOs), and Overseas Citizens of India (OCI) cardholders
The special banking and forex facilities are extended to a broad group of individuals connected to India. This includes Non-resident Indians (NRIs), Persons of Indian Origin (PIOs), and Overseas Citizens of India (OCI) cardholders. The term PIO is inclusive of OCI cardholders, ensuring wide coverage for the Indian diaspora to maintain economic linkages with India.

Oct/Nov 2006

3. Which of the following statements correctly lists the three special types of bank accounts permitted to be maintained in India by NRIs and PIOs?

(A) NRE Account, NRO Account, and Resident Foreign Currency (RFC) Account
(B) NRE Account, FCNR(B) Account, and SNRR Account
(C) NRE Account, FCNR(B) Account, and NRO Account
(D) FCNR(B) Account, NRO Account, and RFC Account

Ans :

(C) NRE Account, FCNR(B) Account, and NRO Account
NRIs and PIOs are primarily permitted to maintain three special types of accounts in India to meet their specific needs. These are the Non-Resident (External) Rupee Account (NRE), the Foreign Currency (Non-resident) Account (Banks) Scheme (FCNR(B)), and the Non-Resident (Ordinary) Rupee Account (NRO). Each account has distinct features regarding currency, repatriability, and permitted transactions.

May/June 2018

4. Which types of financial institutions are authorized by the RBI to open and maintain Non-Resident (External) Rupee Accounts (NRE Accounts)?

(A) Only Scheduled Commercial Banks
(B) Only Authorised Dealers (ADs) in foreign exchange
(C) Only public sector banks and foreign banks operating in India
(D) Authorised Dealers (ADs) and certain other banks, including cooperative banks

Ans :

NODIA

(D) Authorised Dealers (ADs) and certain other banks, including cooperative banks

The facility to open and maintain NRE accounts is not limited to just Authorised Dealer banks. The RBI has extended this authorization to ADs as well as certain other banks, specifically including cooperative banks, that have received the necessary permission. This broadens the network of institutions available to NRIs for their banking needs in India.

Oct/Nov 2021

5. Consider the following statements regarding joint NRE accounts:

Statement I: An NRE account can be held jointly by an NRI/PIO with a resident relative on a 'former or survivor' basis.

Statement II: The resident relative joint holder can operate the NRE account freely for all types of transactions during the lifetime of the NRI/PIO.

Which of the following is correct?

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct and Statement II is incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(C) Statement I is correct and Statement II is incorrect.

An NRI/PIO can indeed hold an NRE account jointly with a resident relative on a 'former or survivor' basis. However, the operational rights of the resident joint holder are restricted. During the lifetime of the primary NRI/PIO account holder, the resident relative can only operate the account as a Power of Attorney (PoA) holder.

May/June 2007

6. A resident Power of Attorney (PoA) holder operating an NRE account is permitted to undertake several transactions. Which of the following is an action they are NOT allowed to perform?

(A) Making withdrawals for local payments in India.
(B) Opening a new NRE account in the name of the non-resident holder.
(C) Making permitted investments in India on behalf of the NRI.
(D) Remitting funds to the non-resident account holder himself through banking channels.

Ans :

(B) Opening a new NRE account in the name of the non-resident holder.

While a resident PoA holder has significant operational authority over an NRE account, including making local payments and investments, their powers are not absolute. They are explicitly prohibited from opening a new NRE account on behalf of the non-resident. They also cannot repatriate funds to anyone other than the account holder or make gifts to residents.

Oct/Nov 2014

7. Which of the following statements regarding permitted credits into an NRE account is incorrect?

(A) Inward remittances to India in any permitted currency can be credited.
(B) Current income in India, such as rent or dividends, can be credited after payment of applicable taxes.
(C) Transfers from other NRE or FCNR(B) accounts are permissible credits.
(D) Sale proceeds of agricultural land or a plantation in India can be credited.

Ans :

(D) Sale proceeds of agricultural land or a plantation in India can be credited.

NRE accounts are meant for funds remitted from abroad or specific eligible credits. While refunds related to property transactions are allowed if the original payment was from an NRE/FCNR(B) account, the direct credit of sale proceeds of agricultural land, plantations, or farmhouses is generally not a permitted credit into an NRE account, aligning with broader investment restrictions.

May/June 2012

8. What is the minimum tenure for a Non-Resident (External) Rupee Term Deposit (NRE TD)?

(A) 1 year
(B) 7 days
(C) 6 months
(D) 3 years

Ans :

(A) 1 year

NODIA

According to RBI directives, term deposits under the Non-Resident (External) Rupee Account Scheme must have a minimum tenure of one year. Deposits for a period shorter than one year are not permitted under this scheme. This regulation helps ensure a degree of stability in the foreign currency inflows managed through these accounts by banks.

Oct/Nov 2019

9. Regarding interest rates on NRE deposits, which of the following is a key regulatory stipulation?

(A) The interest rate on NRE term deposits must always be lower than that for comparable domestic rupee term deposits.

(B) Banks are permitted to offer additional interest rates for senior citizen NRI depositors.

(C) The interest rate on NRE term deposits should not exceed the rate offered on comparable domestic rupee term deposits.

(D) Interest rates on NRE term deposits can vary based on the depositor's country of residence.

Ans :

(C) The interest rate on NRE term deposits should not exceed the rate offered on comparable domestic rupee term deposits.

A significant regulatory ceiling governs the interest rates on NRE term deposits. Banks are directed that the rate of interest offered on NRE TDs cannot be higher than the rates offered on comparable domestic rupee term deposits. Furthermore, banks are not permitted to offer any additional interest for staff or senior citizen NRI depositors.

May/June 2016

10. An NRI holds an NRE term deposit for 8 months and then returns to India for permanent settlement. The deposit is prematurely converted into a Resident Foreign Currency (RFC) account. What interest rate will be applicable to the deposit for the 8-month period it was held as an NRE TD?

(A) A rate not exceeding the rate for a savings bank account held in the RFC account.

(B) The contracted rate of interest for the original tenure.

(C) The rate applicable for a domestic term deposit of 8 months.

(D) No interest will be paid as the minimum one-year tenure was not completed.

Ans :

(A) A rate not exceeding the rate for a savings bank account held in the RFC account.

When an NRE term deposit is prematurely converted to an RFC account upon the NRI's return, special rules apply if the minimum one-year tenure is not completed. In such cases, the interest paid for the period the deposit has run will be at a rate not exceeding that applicable to savings bank deposits held in RFC accounts.

Oct/Nov 2025

11. Assertion (A): Premature withdrawal of NRE term deposits is generally subject to a penalty as per the bank's board-approved policy.

Reason (R): No penalty is applied if an NRE term deposit is prematurely converted into an FCNR(B) deposit.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.

Assertion (A) is true; banks levy penalties on premature withdrawal of NRE TDs based on their board-approved policies. However, Reason (R) is false. The regulations explicitly state that penalties for premature withdrawal are applicable for the conversion of an NRE deposit into an FCNR(B) deposit and vice versa, treating it as a premature closure.

May/June 2023

12. What is the tax treatment for the principal amount and the interest earned on deposits held in an NRE account?

(A) Interest is taxable, but the principal is exempt from wealth tax.

(B) Both principal and interest are exempt from Indian Income Tax and Wealth Tax.

(C) Both principal and interest are subject to Indian Income Tax.

(D) Principal is taxable under Wealth Tax, but interest is exempt from Income Tax.

Ans :

(B) Both principal and interest are exempt from Indian Income Tax and Wealth Tax.

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A key feature and major attraction of the NRE account scheme is its favorable tax treatment. The balances held in NRE accounts and the interest accrued on these deposits are completely exempt from both Indian Income Tax and Wealth Tax. This tax-free status applies as long as the account holder maintains non-resident status under FEMA.

Oct/Nov 2018

13. What is the primary restriction on the end-use of a loan granted in India against the security of NRE term deposits?

(A) The loan amount cannot be used for purchasing a residential flat.
(B) The loan amount cannot be used for any business activities.
(C) The loan amount cannot be repatriated outside India.
(D) The loan amount cannot be invested as capital in Indian firms.

Ans :

(C) The loan amount cannot be repatriated outside India.
While loans against NRE deposits can be used for various purposes like personal needs, business, or acquiring property in India, there is a strict restriction on its end-use. The loan amount, being granted in Indian Rupees against a repatriable deposit, cannot itself be repatriated outside India. This is to prevent circumvention of foreign exchange controls.

May/June 2019

14. Regarding loans against NRE deposits, identify the correctly matched pair of loan purpose and its permissibility.

(A) Loan Purpose: Relending activities - Permitted
(B) Loan Purpose: Investment in real estate business - Permitted
(C) Loan Purpose: Agricultural or plantation activities - Permitted
(D) Loan Purpose: Acquiring a flat for own residence - Permitted

Ans :

(D) Loan Purpose: Acquiring a flat for own residence - Permitted
Loans against NRE deposits can be utilized for acquiring a flat or house in India for the borrower's own residential use, as per FEMA guidelines. However, the funds are explicitly prohibited from being used for relending, engaging in agricultural or plantation activities, or for making investments in the real estate business (i.e., buying and selling properties).

Oct/Nov 2010

15. In the context of the FCNR(B) scheme, what does "FCNR(B)" stand for, and what is its fundamental characteristic?

(A) Foreign Currency (Non-resident) Account (Banks) Scheme; it is a foreign currency-denominated account.
(B) Foreign Currency (National) Rupee (Banks) Account; it is a rupee-denominated account.
(C) Fixed Currency (Non-resident) Bearer Account; it is a bearer instrument.
(D) Foreign Credit (Non-resident) Bond Account; it is a type of bond.

Ans :

(A) Foreign Currency (Non-resident) Account (Banks) Scheme; it is a foreign currency-denominated account.
FCNR(B) stands for Foreign Currency (Non-resident) Account (Banks) Scheme. Its fundamental characteristic is that the deposits are maintained in a designated foreign currency, not in Indian Rupees. This protects the depositor from exchange rate risk between the foreign currency and the Indian Rupee, as the principal and interest are payable in the foreign currency.

May/June 2005

16. What types of deposits are permitted under the FCNR(B) scheme?

(A) Savings Accounts and Term Deposits only
(B) Term Deposits only
(C) Term Deposits and Recurring Deposits only
(D) Current, Savings, and Term Deposits

Ans :

(B) Term Deposits only
The FCNR(B) scheme is specifically designed for term deposits. Unlike NRE or NRO accounts, which can be maintained as savings, current, or recurring deposits, FCNR(B) accounts can only be opened as Term Deposits (TDs). Recurring Deposits (RDs) are explicitly not permitted under this particular scheme, emphasizing its nature as a fixed-term investment vehicle.

Oct/Nov 2022

17. Match the tenure blocks for FCNR(B) deposits in List-I with their corresponding duration in List-II.

List-I (Tenure Block)			List-II (Duration)
P.	Block 1	1.	Three years and above but less than four years
Q.	Block 2	2.	Five years only
R.	Block 3	3.	One year and above but less than two years
S.	Block 4	4.	Two years and above but less than three years

(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(B) P-3, Q-4, R-1, S-2
FCNR(B) deposits have a minimum tenure of one year and a maximum of five years, structured in specific blocks. The correct sequence is: one year to less than two years; two years to less than three years; three years to less than four years; four years to less than five years; and five years only.

May/June 2014

18. What is the reference rate used for determining the interest on FCNR(B) deposits?
(A) The Overnight Alternative Reference Rate for the respective currency as displayed by FBIL.
(B) The London Interbank Offered Rate (LIBOR) for the respective currency.
(C) The domestic term deposit rate for the corresponding tenor.
(D) The Marginal Cost of Funds based Lending Rate (MCLR) of the bank.

Ans :

(A) The Overnight Alternative Reference Rate for the respective currency as displayed by FBIL.
For FCNR(B) deposits, the interest rates are benchmarked against an external reference. The prescribed reference rate is the Overnight Alternative Reference Rate for the specific currency or the swap rates quoted/displayed by Financial Benchmarks India Pvt. Ltd. (FBIL). This has replaced the earlier LIBOR-based system, aligning with global benchmark reforms for financial instruments.

Oct/Nov 2007

19. What is the maximum permitted mark-up on the reference rate for an FCNR(B) deposit with a tenor of 4 years?
(A) 250 basis points
(B) 300 basis points
(C) 350 basis points
(D) 400 basis points

Ans :

(C) 350 basis points
RBI has stipulated specific ceilings for the mark-up over the reference rate for FCNR(B) deposits based on tenor. For deposits with a tenor of three years up to five years, the maximum permitted mark-up is 350 basis points. For tenors of less than three years, the ceiling is lower, at 250 basis points.

May/June 2025

20. An FCNR(B) deposit is renewed 10 days after its maturity date. For the 10-day overdue period, how will the interest be calculated?
(A) At the original contracted rate of the deposit.
(B) At the rate applicable to savings bank accounts.
(C) No interest will be paid for the overdue period.
(D) At the lower of the rate prevailing on the maturity date or the renewal date.

Ans :

(D) At the lower of the rate prevailing on the maturity date or the renewal date.
For FCNR(B) deposits renewed within 14 days of maturity, a specific rule applies for calculating interest for the overdue period. The interest for these days is calculated at the rate which is lower of two options: the rate that was prevailing on the date the deposit matured or the rate prevailing on the date it is renewed.

Oct/Nov 2009

21. Consider the following statements regarding the payment of interest on an FCNR(B) deposit upon the death of the depositor:
I. If paid before maturity, interest is paid at the rate applicable for the period the deposit remained with the bank, without any penalty.

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II. If the depositor dies before maturity but the deposit is paid after the maturity date, interest is paid at the contracted rate until maturity.
III. For resident claimants, the deposit is converted into Indian Rupees on maturity, and interest thereafter is paid at the domestic savings bank rate.

Which of the statements given above are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II and III

Ans :

(A) I and II only
Statements I and II are correct as per the guidelines. If paid before maturity, no penalty is levied. If paid after maturity (following death before maturity), the contracted rate applies till the original maturity date. Statement III is incorrect; for resident claimants, after conversion to INR on maturity, interest is paid at the rate applicable to a domestic term deposit of similar maturity, not a savings account.

May/June 2009

22. Which of the following statements about the Non-Resident (Ordinary) Rupee Account (NRO) is incorrect?
(A) Any person resident outside India, as per FEMA, can open an NRO account.
(B) The minimum tenor for an NRO fixed deposit is one year.
(C) An NRO account can be held jointly by an NRI with a resident on a 'former or survivor' basis.
(D) The interest rate on NRO term deposits cannot be higher than that on comparable domestic rupee deposits.

Ans :

(B) The minimum tenor for an NRO fixed deposit is one year.
The minimum tenor for NRO fixed deposits is seven days, making it suitable for holding funds for shorter durations. This is a key difference from NRE term deposits, which have a mandatory minimum tenure of one year. All other statements regarding eligible persons, joint holdings, and interest rate ceilings for NRO accounts are correct as per regulations.

Oct/Nov 2016

23. "Permissible Debits [NRO Account]: Only local payments; and transfers to other NRO accounts. Remittances abroad not permitted, except: current income; for NRIs/PIOs up to USD 1 million per financial year (including transfer to their NRE accounts)."
Based on the provided text, which of the following transactions is a permissible debit from an NRO account?
(A) Free remittance of the entire balance abroad at any time.
(B) Remittance of up to USD 2 million per financial year for an NRI.
(C) Direct payment for the purchase of property outside India.
(D) Transfer of funds to the NRE account of the same NRI, within the USD 1 million limit.

Ans :

(D) Transfer of funds to the NRE account of the same NRI, within the USD 1 million limit.
The source text explicitly states that remittances abroad from an NRO account are generally not permitted, with specific exceptions. One key exception allows NRIs/PIOs to remit up to USD 1 million per financial year. This limit includes transfers made from the NRO account to their own NRE account, which is a form of making the funds repatriable.

May/June 2010

24. When an Indian resident moves abroad and becomes a non-resident for FEMA purposes, what happens to their existing resident rupee accounts?
(A) The accounts are designated as Non-Resident (Ordinary) or NRO accounts.
(B) The accounts must be closed immediately.
(C) The accounts are automatically converted to NRE accounts.
(D) The accounts can continue to be operated as resident accounts without any change.

Ans :

(A) The accounts are designated as Non-Resident (Ordinary) or NRO accounts.
When a person's residential status changes from resident to non-resident, their existing domestic rupee accounts cannot continue in the same form. The regulations mandate that such accounts must be re-designated as Non-

NODIA

Resident (Ordinary) Rupee (NRO) accounts. This ensures that the accounts are now governed by the rules applicable to non-resident deposit schemes, particularly regarding repatriability and permissible transactions.

Oct/Nov 2024

25. Transactions made using International Credit Cards (ICCs) issued by AD banks to NRIs/ PIOs can be settled from which of the following accounts?
(A) Only from NRE accounts
(B) Only from FCNR(B) accounts
(C) From NRE, FCNR(B), or NRO accounts
(D) Only through inward remittances from abroad

Ans :

(C) From NRE, FCNR(B), or NRO accounts
Authorised Dealer banks are permitted to issue International Credit Cards to NRIs and PIOs. The settlement of dues arising from the use of these cards offers flexibility. The cardholder can settle the transactions through an inward remittance from abroad or by debiting any of their permitted non-resident accounts, which include their FCNR(B), NRE, or NRO accounts.

May/June 2017

26. A foreign national of non-Indian origin visiting India for a short period (e.g., four months) can open which type of account for bona fide transactions?
(A) NRO (current/savings) account
(B) NRE savings account
(C) FCNR(B) term deposit
(D) Special Non-Resident Rupee (SNRR) account

Ans :

(A) NRO (current/savings) account
For foreign nationals of non-Indian origin on a temporary visit, the most appropriate account is a Non-Resident (Ordinary) or NRO account. This account can be funded by inward remittances or the sale of foreign exchange. The balance can be paid out upon leaving India, provided the account was held for not more than six months.

Oct/Nov 2005

27. A foreign national was employed in India and held a resident bank account. After her employment ends, she leaves India permanently. The bank re-designates her account as an NRO account to receive some pending salary dues. What is the maximum amount she can repatriate from this account per financial year?
(A) USD 250,000
(B) USD 5 million
(C) There is no limit on repatriation of pending dues.
(D) USD 1 million

Ans :

(D) USD 1 million
When a foreign national leaves India after employment, their resident account can be re-designated as an NRO account to collect pending bona fide dues. The funds credited can be repatriated abroad, but this repatriation is subject to a cap. The amount repatriated abroad from such an account should not exceed USD one million per financial year.

May/June 2020

28. Under what condition can an AD bank open an NRO account for a citizen of Bangladesh or Pakistan residing in India who belongs to a designated minority community?
(A) They must have applied for Indian citizenship.
(B) They must have been granted a Long Term Visa (LTV) by the Central Government.
(C) They must obtain prior approval from the Ministry of External Affairs.
(D) They must be engaged in a business with an Indian entity.

Ans :

(B) They must have been granted a Long Term Visa (LTV) by the Central Government.
Special provisions exist for minority communities (Hindus, Sikhs, Buddhists, etc.) from Pakistan and Bangladesh. An AD bank can open one NRO account for such a person provided they are residing in India and have been granted a Long Term Visa (LTV) by the Central Government, facilitating their financial transactions while in the country.

Oct/Nov 2015

29. Which of the following statements accurately describes a key feature of a Special Non-Resident Rupee (SNRR) Account?
(A) It is primarily for crediting income like rent and dividends for NRIs.

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(B) It is an interest-bearing account with rates similar to NRO accounts.
(C) It is opened for persons resident outside India to carry out bona fide business transactions in rupees.
(D) Transfers from an NRO account to an SNRR account are freely permitted.

Ans :

(C) It is opened for persons resident outside India to carry out bona fide business transactions in rupees.
The SNRR account is specifically designed for foreign nationals or entities that have a business relationship or interest in India. Its purpose is to facilitate bona fide transactions in Indian Rupees related to that business, such as investments, trade credits, or import/export of services. It is a non-interest-bearing account, and transfers from NRO accounts are prohibited.

May/June 2013

30. What is the maximum tenure for which an SNRR account can be opened without requiring RBI approval for renewal?
(A) 3 years
(B) 5 years
(C) 10 years
(D) 7 years

Ans :

(D) 7 years
The tenure of an SNRR account is linked to the duration of the contract or business of the account holder in India. However, there is a general maximum limit. The account can be opened for a maximum period of seven years. Any renewal beyond this seven-year period requires prior approval from the Reserve Bank of India.

Oct/Nov 2008

31. Which of the following is NOT a permissible purpose for opening an SNRR account?
(A) Personal remittances and family maintenance.
(B) Investments in India.
(C) Import and export of goods and services.
(D) Trade credit transactions.

Ans :

(A) Personal remittances and family maintenance.
The SNRR account is strictly for business purposes. Permitted transactions include investments, trade credits, and payments for import/export of goods and services. It is not intended for personal use, such as receiving personal remittances or for family maintenance expenses. For such purposes, an NRO account would be the appropriate vehicle for a non-resident.

NODIA

May/June 2006

32. What is the general limit for remittance of assets by NRIs/PIOs from sources like NRO account balances or sale proceeds of assets, per financial year, without requiring prior RBI approval?
(A) USD 250,000
(B) USD 1 million
(C) USD 2 million
(D) USD 5 million

Ans :

(B) USD 1 million
Authorised Dealers can allow NRIs and PIOs to remit funds from their NRO accounts and from the sale proceeds of their assets (including inherited assets) up to a specified limit. The general ceiling for such remittances is USD 1 million per financial year. Remittances exceeding this amount require prior approval from the Reserve Bank of India.

Oct/Nov 2017

33. An NRI wishes to acquire immovable property in India. Consider the following modes of acquisition:
I. Purchase of agricultural land from a resident.
II. Inheritance of a farmhouse from a person resident outside India.
III. Gift of a residential flat from a resident relative.
IV. Purchase of a commercial property using funds from an NRE account.
Which of the above acquisition methods are permissible for an NRI/PIO/OCI?
(A) I, II, and III only
(B) II, III, and IV only
(C) I and IV only
(D) II and III only

Ans :

(B) II, III, and IV only
NRIs/PIOs/OCIs are permitted to inherit any immovable property, including farmhouses. They can receive residential/commercial property as a

gift from a resident relative and can purchase such property from their own funds. However, they are explicitly prohibited from acquiring agricultural land, plantation property, or a farmhouse by way of purchase, making statement I impermissible.

May/June 2008

34. A person resident outside India, who is not an NRI/OCI, is married to an OCI cardholder. The couple wishes to jointly purchase a residential flat in India. Which of the following conditions must be met for this joint acquisition to be permissible?

(A) The marriage must have subsisted for at least two years preceding the acquisition.
(B) The payment can be made using traveller's cheques.
(C) The non-NRI/OCI spouse can be a citizen of Pakistan.
(D) The payment can be sourced from a loan taken in India.

Ans :

(A) The marriage must have subsisted for at least two years preceding the acquisition.
For a non-NRI/OCI foreign national spouse to jointly acquire one immovable property with their NRI/OCI spouse, several conditions apply. A key condition is that the marriage must be registered and have subsisted for a continuous period of at least two years immediately preceding the acquisition. Payment must be from inward remittance or NR accounts, not traveller's cheques.

Oct/Nov 2013

35. "A citizen of Afghanistan, Bangladesh or Pakistan belonging to minority communities... residing in India holding a Long Term Visa (LTV)... can purchase certain properties in India. (i) One residential unit for self-occupation, and one immovable property for self-employment. (ii) It should not be located in and around restricted/ protected areas... or cantonment areas."
Based on the text, what can a person covered by this rule purchase?

(A) Any number of residential and commercial properties anywhere in India.
(B) Only one residential unit for self-occupation.
(C) One residential unit and one commercial property, excluding locations in cantonment areas.
(D) Multiple properties for self-employment, including in restricted areas.

Ans :

(C) One residential unit and one commercial property, excluding locations in cantonment areas.
The source clearly specifies the limits and restrictions for property acquisition by LTV holders from specified countries and communities. They are permitted to buy exactly two properties: one residential unit for self-occupation and one immovable property for self-employment. The text also explicitly prohibits the acquisition of property located in restricted/ protected areas or cantonment areas.

May/June 2015

36. What is the general rule regarding the repatriation of sale proceeds of immovable property held by NRIs/PIOs/OCIs?

(A) Sale proceeds of all types of property can be freely repatriated.
(B) Repatriation is allowed only if the property was held for more than 10 years.
(C) Repatriation is not permitted for any property; proceeds must be credited to an NRO account only.
(D) Repatriation of sale proceeds is restricted to a maximum of two residential properties.

Ans :

(D) Repatriation of sale proceeds is restricted to a maximum of two residential properties.
While repatriation of sale proceeds is permitted under certain conditions (like original payment in foreign exchange), there is a significant restriction. The facility for repatriating the sale proceeds of residential properties is limited to a maximum of two such properties in the lifetime of the non-resident owner. This cap is a key control measure in the policy.

Oct/Nov 2012

37. Citizens of which of the following countries require prior RBI permission to acquire or transfer immovable property in India, even on a lease of more than five years?

(A) United States of America
(B) United Kingdom
(C) China
(D) Australia

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Ans :

(C) China
Regulations place specific restrictions on citizens of certain countries regarding immovable property transactions in India. Citizens of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal, Bhutan, Macau, Hong Kong, and the Democratic People's Republic of Korea need to obtain prior approval from the RBI to acquire or transfer such property, except for leases not exceeding five years.

May/June 2011

38. Assertion (A): An AD bank in India can create a mortgage on an immovable property in India owned by an NRI/OCI.
Reason (R): The mortgage is created as security for a loan availed by the NRI/OCI from an overseas lender for the core business purposes of their overseas company.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; AD banks can facilitate such a charge. Reason (R) provides the specific context and conditions under which this is allowed. The facility is available when the NRI/OCI is a director of a company outside India, the loan is from an overseas lender for that company's core business, and the AD bank acts as the Indian correspondent.

Oct/Nov 2020

39. When an NRI returns to India for permanent stay, what are they permitted to do with the assets they held abroad while they were a non-resident?
(A) They must immediately liquidate all foreign assets and repatriate the proceeds to India.
(B) They must transfer the ownership of all foreign assets to a resident Indian relative.
(C) They can hold the assets but cannot earn any further income on them.
(D) They can continue to hold, own, transfer, or invest in those assets as per FEMA provisions.

Ans :

(D) They can continue to hold, own, transfer, or invest in those assets as per FEMA provisions.
A returning NRI is not forced to liquidate their foreign assets. FEMA allows a person who is now resident in India to continue to hold, own, transfer, or invest in any foreign currency, security, or immovable property that was acquired, held, or owned by them when they were a non-resident or inherited from a non-resident.

May/June 2022

40. "Investment in the following sectors is not permitted even for NRIs/OCIs, except where indicated otherwise. (i) Lottery Business... (ii) Gambling and betting... (iii) Chit funds (except NRIs/OCIs on non-repatriation basis). (iv) Nidhi company."
Based on this text, in which of the following can an NRI/OCI invest?
(A) A chit fund on a non-repatriation basis.
(B) A government-run lottery business on a repatriation basis.
(C) A Nidhi company on a non-repatriation basis.
(D) A casino business on a non-repatriation basis.

Ans :

(A) A chit fund on a non-repatriation basis.
The source text lists sectors where investment is prohibited for NRIs/OCIs. It explicitly bans investment in lottery, gambling, and Nidhi companies without exception. However, for chit funds, it provides a specific exception: investment is permitted for NRIs/OCIs, but only on a non-repatriation basis. This means the principal and earnings cannot be taken out of India.

Oct/Nov 2023

41. Which of the following activities is NOT in the prohibited list for investment by NRIs/OCIs?
(A) Manufacturing of cigars and cigarettes.
(B) Real Estate Business.
(C) Information Technology services.
(D) Atomic energy and Railway operations.

Ans :

(C) Information Technology services.
The prohibited list for NRI/OCI investment includes specific sectors like lottery, gambling, chit funds (with exceptions), Nidhi companies,

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TDR trading, real estate business, manufacturing of tobacco products, and sectors not open to private investment like atomic energy and railway operations. The Information Technology (IT) services sector is generally open for investment and is not on this prohibited list.

May/June 2021

42. An Indian company issues equity shares to an NRI against funds payable to them. What is a key condition for such an issue without prior government or RBI permission?
(A) The issue of shares should not require prior permission of the Central Government or RBI.
(B) The shares issued must be partly paid shares.
(C) The shares issued cannot be equity shares, only preference shares.
(D) The funds payable to the NRI must be from a permitted source.

Ans :

(A) The issue of shares should not require prior permission of the Central Government or RBI.
An Indian company is allowed to issue equity shares (excluding partly paid shares) against legitimate funds it owes to a person resident outside India. A crucial condition for this transaction to proceed under the automatic route is that the underlying transaction or reason for issuing shares does not itself require any prior permission from the government or RBI.

Oct/Nov 2011

43. What is the holding ceiling for a single individual NRI or OCI in the total paid-up equity capital of a listed Indian company, when investing on a repatriation basis through a stock exchange?
(A) 2%
(B) 10%
(C) 24%
(D) 5%

Ans :

(D) 5%
For investments made on a repatriation basis in a listed Indian company, there are specific holding limits. The investment by any single NRI or OCI is capped at 5% of the total paid-up equity capital on a fully diluted basis. A similar 5% cap applies to the paid-up value of each series of debentures or preference shares.

May/June 2024

44. The aggregate ceiling for investment by all NRIs and OCIs together in a listed Indian company is 10%. How can this ceiling be increased to 24%?
(A) By obtaining an approval from the Foreign Investment Promotion Board (FIPB).
(B) By passing a special resolution to that effect by the General Body of the Indian company.
(C) By an application from the company to the RBI's Foreign Exchange Department.
(D) It is automatically increased if the company is in a high-priority sector.

Ans :

(B) By passing a special resolution to that effect by the General Body of the Indian company.
The default aggregate investment limit for all NRIs/OCIs in a listed Indian company is 10% of the paid-up capital. However, the regulations provide a mechanism for this limit to be enhanced. The Indian company can increase this aggregate ceiling from 10% to 24% by passing a special resolution to that effect in its General Body meeting.

Oct/Nov 2006

45. What is the specific name given to the dedicated NRE account that must be used by an NRI/OCI for making investments in a listed Indian company's capital instruments on a stock exchange on a repatriation basis?
(A) NRE (Standard) Account
(B) NRE (Investment) Account
(C) NRE (PIS) Account
(D) NRE (Capital) Account

Ans :

(C) NRE (PIS) Account
For routing investments in the Indian secondary market on a repatriation basis, NRIs/OCIs are required to use a specific type of NRE account. This account is designated as an NRE (PIS) Account, where PIS stands for Portfolio Investment Scheme. All transactions related to the purchase and sale of shares on the stock exchange are routed through this account.

May/June 2018

46. Consider the following statements regarding investments by NRIs/OCIs on a non-repatriation basis:
Statement I: Such investments are deemed to be domestic investments.

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Statement II: The sale proceeds of such investments can be freely repatriated outside India.

Which of the following is correct?

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct and Statement II is incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(C) Statement I is correct and Statement II is incorrect.

Statement I is correct; investments made by NRIs/OCIs on a non-repatriation basis are treated as domestic investments from a regulatory perspective. However, Statement II is incorrect. The very nature of a "non-repatriation basis" means that the capital invested and any capital appreciation cannot be repatriated abroad. The proceeds must be credited to the NRO account.

Oct/Nov 2021

47. An NRI/OCI wishes to invest on a non-repatriation basis. Which of the following investments is explicitly prohibited for them?

(A) Capital instruments of a Nidhi company.
(B) Capital of a Limited Liability Partnership (LLP).
(C) Convertible notes issued by a startup company.
(D) Units issued by an investment vehicle on a stock exchange.

Ans :

(A) Capital instruments of a Nidhi company.

While the scope for non-repatriation investment is broad, certain sectors remain off-limits. The regulations explicitly prohibit NRIs/OCIs from investing in the capital instruments or units of a Nidhi company, even on a non-repatriation basis. Investments in LLPs, startup convertible notes, and investment vehicles are generally permitted under this route, subject to conditions.

May/June 2007

48. "The investee firm or proprietary concern should not be engaged in: Agricultural/plantation activity; Print media; Real estate business (i.e., dealing in land and immovable property with a view to earning profit or earning income therefrom)."

An NRI wants to invest in a proprietary concern in India on a non-repatriation basis. Based on the source, which business is permissible for the investee firm?

(A) A real estate agency buying and selling plots.
(B) A software development and consulting firm.
(C) A firm publishing a daily newspaper.
(D) A company managing a coffee plantation.

Ans :

(B) A software development and consulting firm.

The source text lists specific business activities that the investee firm or proprietary concern cannot be engaged in. These include agricultural/plantation activities, print media, and real estate business. A software development and consulting firm does not fall into any of these prohibited categories, making it a permissible area for the NRI's investment on a non-repatriation basis.

Oct/Nov 2014

49. What is the key difference in the treatment of sale proceeds between investments made on a repatriation basis and those made on a non-repatriation basis by an NRI/OCI?

(A) There is no difference; all sale proceeds are credited to the NRO account.
(B) Repatriation basis proceeds can be remitted abroad or credited to NRE/FCNR(B) accounts, while non-repatriation proceeds must be credited to the NRO account.
(C) Repatriation basis proceeds are tax-free, while non-repatriation basis proceeds are taxed at a higher rate.
(D) Repatriation is allowed for both, but the limit is higher for non-repatriation basis investments.

Ans :

(B) Repatriation basis proceeds can be remitted abroad or credited to NRE/FCNR(B) accounts, while non-repatriation proceeds must be credited to the NRO account.

The fundamental distinction lies in the destination of the disinvestment proceeds. For investments made on a repatriation basis, the proceeds (net of taxes) can be sent abroad or credited to repatriable accounts like NRE or FCNR(B). For non-repatriation investments, the proceeds must be credited only to the non-

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repatriable NRO account, restricting the funds within India.

May/June 2012

50. Match the investment type in List-I with its corresponding funding source in List-II for an NRI/OCI.

List-I (Investment Type)			List-II (Permitted Funding Source)
P.	Capital instruments on repatriation basis	1.	NRE / FCNR(B) / NRO account
Q.	Capital instruments on non-repatriation basis	2.	Inward remittance or NRE / FCNR(B) account
R.	Investment in a proprietary concern	3.	NRO account only
S.	Securities on non-repatriation basis	4.	Inward remittance or NRE / FCNR(B) / NRO account

(A) P-2, Q-4, R-4, S-4
(B) P-2, Q-1, R-1, S-4
(C) P-1, Q-2, R-3, S-1
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-2, Q-4, R-4, S-4
Repatriation basis investments must be funded from repatriable sources like inward remittance or NRE/FCNR(B) accounts. However, for all non-repatriation basis investments—be it in capital instruments, proprietary concerns, or other securities—the funding can come from repatriable sources (inward remittance, NRE/FCNR(B)) or non-repatriable sources (NRO account), as the end investment itself is non-repatriable.

Oct/Nov 2019

51. Which of the following instruments can an NRI/OCI purchase without limit on a repatriation basis?
(A) Units of domestic mutual funds investing up to 75% in equity.
(B) Bearer government dated securities.
(C) Treasury bills.
(D) Debt instruments issued by private sector banks.

Ans :

(C) Treasury bills.
The regulations permit NRIs/OCIs to invest on a repatriation basis without any limit in certain specified instruments. These include non-bearer Government dated securities, treasury bills, and bonds of a PSU in India. Investment in equity-oriented mutual funds is capped (up to 50% in equity), and bearer securities are not permitted.

May/June 2016

52. An NRI/OCI invests in National Pension System (NPS) on a repatriation basis. What is the primary condition for this investment?
(A) The investment must be made through an NRO account only.
(B) The investment is capped at USD 1 million per financial year.
(C) The NRI/OCI must commit to not repatriating the annuity.
(D) The NRI/OCI must be eligible to invest as per PFRDA regulations.

Ans :

(D) The NRI/OCI must be eligible to invest as per PFRDA regulations.
While FEMA permits NRIs/OCIs to invest in the National Pension System (NPS) on a repatriation basis, this permission is conditional. The investment is allowed only if the NRI/OCI is eligible to invest as per the specific rules and regulations laid down by the Pension Fund Regulatory and Development Authority (PFRDA), which governs the NPS.

Oct/Nov 2025

53. An NRI acquires shares on a stock exchange on a repatriation basis, which inadvertently causes the aggregate NRI/OCI holding in the company to breach the sectoral limit. What action must the NRI take?
(A) The NRI can hold the shares but cannot purchase any more.
(B) The NRI must seek post-facto approval from the RBI within 30 days.
(C) The NRI must sell the excess shares within 5 trading days of settlement.
(D) The NRI must transfer the excess shares to their non-repatriable portfolio.

NODIA

Ans :

(C) The NRI must sell the excess shares within 5 trading days of settlement.
Regulations have a clear procedure for handling breaches of investment limits. If an acquisition on a stock exchange leads to a breach of the aggregate NRI/OCI or sectoral limits, the NRI/OCI who made the purchase is responsible for rectifying it. They must sell the excess shares within five trading days from the date of settlement.

May/June 2023

54. How can an NRI/OCI holding capital instruments on a non-repatriation basis transfer them?
(A) They can only gift them to a resident Indian relative.
(B) They can sell them to a person resident outside India, subject to foreign investment conditions.
(C) They can sell them to anyone, and the proceeds become repatriable.
(D) They cannot be transferred and must be held until maturity or liquidation.

Ans :

(B) They can sell them to a person resident outside India, subject to foreign investment conditions.
Capital instruments held on a non-repatriation basis are not completely illiquid. An NRI/OCI can transfer them in several ways, including by sale to another person resident outside India. However, such a sale is not unconditional; it must comply with the various conditions applicable to foreign investment, such as pricing guidelines and sectoral caps.

Oct/Nov 2018

55. An NRI/OCI holding securities of an Indian company on a non-repatriation basis wishes to gift them to a person resident outside India. What is the regulatory requirement for this transaction?
(A) No approval is needed.
(B) Approval from the company's board of directors is sufficient.
(C) The gift is prohibited; it can only be sold.
(D) Prior approval of the RBI is required.

Ans :

(D) Prior approval of the RBI is required.
While sales of non-repatriation securities are permitted under certain rules, gifting them is more restricted. An NRI/OCI holding securities on a non-repatriation basis who wishes to transfer them as a gift to another person resident outside India must obtain prior approval from the Reserve Bank of India, subject to certain (unenumerated) conditions.

May/June 2019

56. "NRIs/PIOs, can remit up to USD 1 mn per FY from NRO deposits and assets acquired from parents/relatives. With prior RBI approval remittances beyond this ceiling can be made in respect of assets acquired by way of inheritance/ legacy."
Based on this, when is prior RBI approval mandatory for remittance by an NRI?
(A) Remitting USD 1.2 million in a financial year, where the entire amount is from an inheritance.
(B) Remitting USD 500,000 from an NRO account.
(C) Remitting rental income earned in India from an NRO account.
(D) Remitting funds acquired from a resident parent under a gift deed.

Ans :

(A) Remitting USD 1.2 million in a financial year, where the entire amount is from an inheritance.
The source states a general limit of USD 1 million per financial year for remittances from NRO accounts and other assets. It then provides a specific condition for exceeding this limit: prior RBI approval is needed for remittances beyond USD 1 million if the assets were acquired through inheritance or legacy. The remittance of USD 1.2 million clearly exceeds the limit.

Oct/Nov 2010

57. An OCI owns a residential flat and a commercial shop in India, both purchased with funds from his NRE account. He sells both properties. He has not repatriated sale proceeds of any other property before. What are the rules regarding the repatriation of the sale proceeds?
(A) He can repatriate the proceeds of the residential flat only.
(B) He cannot repatriate the proceeds of either property.
(C) He can repatriate the proceeds of both properties without any restriction.
(D) He can repatriate the proceeds of one property now and the second one in the next

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financial year.

Ans :

(C) He can repatriate the proceeds of both properties without any restriction.
The rules permit repatriation of sale proceeds of immovable property (other than agricultural land/farm house/plantation) if the original purchase was funded through appropriate foreign exchange sources. A key restriction is that repatriation of sale proceeds of residential properties is limited to two. Since he has one residential and one commercial property, he can repatriate the proceeds of both.

May/June 2005

58. Which type of account is designed to be a non-interest-bearing rupee account for a foreign entity to handle its rupee-denominated business transactions in India, with the balance being repatriable?
(A) SNRR Account
(B) NRO Account
(C) NRE Account
(D) RFC Account

Ans :

(A) SNRR Account
The Special Non-Resident Rupee (SNRR) Account fits this description perfectly. It is a rupee account for persons resident outside India to conduct bona fide business transactions. Key features are that it is non-interest bearing, and the balances held in the account are repatriable, subject to tax compliance. This distinguishes it from NRO (non-repatriable) and NRE (interest-bearing) accounts.

Oct/Nov 2022

59. Identify the incorrectly matched pair of account type and its feature.
(A) NRE Account : Interest earned is exempt from Indian income tax.
(B) FCNR(B) Account : Maintained in foreign currency, protecting against exchange rate risk.
(C) SNRR Account : Tenure is concurrent with the business contract, up to a maximum of 7 years.
(D) NRO Account : Funds are freely repatriable without any limit.

Ans :

(D) NRO Account : Funds are freely repatriable without any limit.
The core feature of an NRO account is that the funds are generally non-repatriable. While there are provisions for remitting current income and up to USD 1 million per financial year from the balances for NRIs/PIOs, the funds are not "freely repatriable without any limit." The other pairs correctly describe key features of their respective account types.

May/June 2014

60. Consider the following statements about FCNR(B) deposits:
I. The minimum permitted tenure is one year and the maximum is five years.
II. Both fixed and floating interest rates are permitted on these deposits.
III. The interest calculation is based on a 365-day year.
Which of the statements given above are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II and III

Ans :

(A) I and II only
Statements I and II are correct. FCNR(B) deposits have a specific tenure range from one to five years, and banks are permitted to offer both fixed and floating rates of interest on them. Statement III is incorrect; the regulations specify that for the purpose of interest calculation on FCNR(B) deposits, the base shall be 360 days to a year.

CHAPTER 10

Foreign Currency Accounts for Residents and Other Aspects

Oct/Nov 2018

1. What is a key benefit for residents maintaining foreign currency accounts in India, as facilitated by modified FEMA regulations?

(A) It allows them to avail higher interest rates than rupee accounts.

(B) It provides a natural hedge against exchange risk and saves on conversion charges.

(C) It exempts them from all FEMA regulations for personal transactions.

(D) It enables them to conduct domestic transactions exclusively in foreign currency.

Ans :

(B) It provides a natural hedge against exchange risk and saves on conversion charges.

Allowing residents to hold foreign currency accounts helps those who regularly receive and make payments in foreign exchange. This provides a natural hedge, mitigating the risk of adverse currency fluctuations. It also saves them from incurring bank charges that would otherwise apply for converting foreign currency to rupees and vice-versa for every transaction.

May/June 2005

2. Which of the following is NOT a type of foreign currency denominated account that residents are permitted to hold in India?

(A) Non-Resident External (NRE) Rupee Account

(B) Exchange Earner's Foreign Currency (EEFC) Account

(C) Resident Foreign Currency (RFC) Account

(D) Diamond Dollar Account (DDA) Scheme

Ans :

(A) Non-Resident External (NRE) Rupee Account

The primary types of foreign currency accounts residents can hold in India are the EEFC Account, RFC Account, RFC (Domestic) Account, and DDA. A Non-Resident External (NRE) Rupee Account is designed for Non-Resident Indians (NRIs) to park their foreign earnings and is not a foreign currency account maintainable by a person resident in India.

Oct/Nov 2023

3. According to the general provisions for foreign currency denominated accounts in India, in what forms can an account be opened for an individual?

(A) Current account only

(B) Term deposit account only

(C) Current, savings, or term deposit account

(D) Savings and current account only

Ans :

(C) Current, savings, or term deposit account

Unless specified otherwise for a particular account type, the general rule permits foreign currency accounts for individuals to be opened as current, savings, or term deposit accounts. For entities other than individuals, the options are generally restricted to current or term deposit accounts, providing flexibility based on the nature of the account holder.

May/June 2019

4. In the event of the death of a foreign currency account holder, what is the procedure for funds payable to a nominee who is resident outside India?

(A) The funds must first be converted to Indian Rupees and then remitted.

(B) The funds can only be credited to another foreign currency account in India.

(C) The funds require prior approval from the Ministry of Finance for remittance.

(D) The funds can be remitted to the nominee to the extent of their share without any approval.

Ans :

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(D) The funds can be remitted to the nominee to the extent of their share without any approval.

The regulations provide for a straightforward process for non-resident nominees. Upon the account holder's death, the funds can be directly remitted to the nominee residing outside India. This remittance is permitted up to the extent of the nominee's specific share or entitlement from the account balance, facilitating the seamless transfer of assets as per the nomination.

Oct/Nov 2014

5. If a nominee to a foreign currency account is a resident of India and wishes to remit funds abroad to settle the deceased's liabilities, what is required?

(A) No approval is needed as they are a resident nominee.
(B) Approval is required from the Authorized Dealer bank only.
(C) Approval is required from the Reserve Bank of India (RBI).
(D) The funds must be credited to a Resident Foreign Currency (RFC) account first.

Ans :

(C) Approval is required from the Reserve Bank of India (RBI).

While a non-resident nominee can receive their share directly, a resident nominee faces a different requirement for outward remittances. If the resident nominee needs to send funds abroad from their inherited share to settle the deceased's overseas liabilities, they must first obtain specific approval from the Reserve Bank of India for making such a remittance.

May/June 2021

6. What must a resident nominee of a foreign currency account held outside India do with the account proceeds upon the death of the account holder?

(A) Continue operating the account from India.
(B) Close the account and bring the proceeds to India through banking channels.
(C) Transfer the balance to an RFC account in India.
(D) Seek RBI approval to retain the funds abroad.

Ans :

(B) Close the account and bring the proceeds to India through banking channels.

As per FEMA regulations, a resident nominee of an account held outside India has a clear obligation. Following the death of the account holder, the nominee is required to close the foreign account. Subsequently, the entire proceeds from that account must be repatriated to India, and this transfer must be conducted through proper banking channels.

Oct/Nov 2009

7. The Exchange Earner's Foreign Currency (EEFC) Account is designed to be opened by a person resident in India primarily from what source of funds?

(A) Gifts received from relatives abroad
(B) Proceeds of foreign currency loans
(C) Disinvestment proceeds of shares held abroad
(D) Foreign exchange earnings

Ans :

(D) Foreign exchange earnings

The fundamental purpose of an EEFC account is to allow exporters and other foreign exchange earners to retain their earnings in foreign currency. This enables them to manage their foreign exchange receivables and payables without being subject to immediate currency conversion, thereby providing a hedge against currency risk and saving on transaction costs.

May/June 2016

8. Which of the following is NOT a permitted credit into an Exchange Earner's Foreign Currency (EEFC) Account?

(A) Inward remittance received as a foreign currency loan or investment.
(B) 100% foreign exchange earnings from inward remittance through normal banking channels.
(C) Advance remittance received towards the export of goods or services.
(D) Professional earnings like consultancy fees received by a professional.

Ans :

(A) Inward remittance received as a foreign currency loan or investment.

An EEFC account is specifically meant for foreign exchange earnings. The regulations explicitly state that funds received by way of inward remittance other than for earnings, such as foreign currency loans or foreign direct

investments, are not permitted to be credited to an EEFC account. These funds must be handled through other appropriate channels.

Oct/Nov 2025

9. Which of the following statements regarding permitted credits to an EEFC account is/are correct?

1. Interest earned on the funds held in the account can be credited.
2. Claims settled in rupees by ECGC or insurance companies can be credited.
3. Unutilised foreign currency earlier withdrawn from the account can be re-credited.

(A) Only 1
(B) Only 1 and 3
(C) Only 2 and 3
(D) All 1, 2, and 3

Ans :

(B) Only 1 and 3
Permitted credits to an EEFC account include interest earned on the account balance and the re-credit of foreign currency that was previously withdrawn but remained unutilised. However, it is explicitly stated that any export-related claims that are settled in Indian Rupees by the Export Credit Guarantee Corporation (ECGC) or insurance companies cannot be credited.

May/June 2007

10. A permitted debit from an EEFC account includes payment in foreign exchange for goods purchased from which specific type of domestic entity?

(A) A 100% Export Oriented Unit or a unit in a Software Technology Park.
(B) Any manufacturer registered as an MSME.
(C) A unit in a Special Economic Zone (SEZ).
(D) Any company listed on a recognized stock exchange in India.

Ans :

(A) A 100% Export Oriented Unit or a unit in a Software Technology Park.
The rules for EEFC account debits allow for certain domestic transactions to be settled in foreign exchange. This includes payments for goods purchased from a 100% Export Oriented Unit (EOU), an Export Processing Zone (EPZ), a Software Technology Park (STP), or an Electronic Hardware Technology Park (EHTP), treating them as deemed exports.

Oct/Nov 2010

11. Based on the source below, which of the following is an explicitly allowed debit from an EEFC account?
"Permitted Debits: (i) Payment outside India for capital or current account transactions. (ii) Payment in foreign exchange for goods purchased from a 100% Export Oriented Unit or a Unit in an Export Processing Zone/ Software Technology Park/ Electronic Hardware Technology Park. (iii) Payment of customs duty as per Export Import Policy."

(A) Investment in the Indian stock market.
(B) Purchase of agricultural land within India.
(C) Payment of salary to domestic employees in foreign currency.
(D) Payment of customs duty as per the prevailing Export Import Policy.

Ans :

(D) Payment of customs duty as per the prevailing Export Import Policy.
The provided text clearly lists specific permitted debits from an EEFC account. Among the options, "Payment of customs duty as per Export Import Policy" is directly mentioned as a permissible use of funds from the account. The other options are not explicitly covered in the given source as a permitted debit for this account type.

May/June 2012

12. What is the rule regarding the accrual of interest on balances held in an Exchange Earner's Foreign Currency (EEFC) account?

(A) The account is an interest-bearing account, with rates fixed by the RBI.
(B) The account is a non-interest bearing account.
(C) Interest is paid only if the balance exceeds USD 1 million.
(D) Interest is paid, but it must be immediately converted to Indian Rupees.

Ans :

(B) The account is a non-interest bearing account.
One of the key conditions governing EEFC accounts is that they are non-interest bearing. Account holders are not entitled to earn any interest on the foreign currency balances maintained in these accounts. This feature

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distinguishes it from other foreign currency deposit schemes where interest may be payable, such as FCNR(B) or RFC accounts.

Oct/Nov 2006

13. Which statement accurately describes a condition applicable to an Exchange Earner's Foreign Currency (EEFC) account?

(A) Fund-based and non-fund based credit facilities can be granted against the balances.
(B) Withdrawal in rupees is permitted, and the amount can be re-credited if unspent.
(C) Fund-based/non-fund based credit facilities should not be granted against the balances.
(D) Claims settled in rupees by ECGC/insurance companies can be credited.

Ans :

(C) Fund-based/non-fund based credit facilities should not be granted against the balances.
A significant restriction on EEFC accounts is that the balances held within them cannot be used as collateral to grant any fund-based or non-fund based credit facilities. While rupee withdrawals are allowed, they cannot be re-credited. Furthermore, claims settled in rupees by ECGC are not permitted to be credited into the EEFC account.

May/June 2023

14. An exporter with an EEFC account has an outstanding packing credit advance taken in Euros. To settle this advance against an actual export shipment, what can the exporter do?

(A) Only use fresh inward remittance from the buyer.
(B) Not repay a foreign currency packing credit from an EEFC account.
(C) Convert the EEFC balance to INR and then repay the Euro advance.
(D) Use the balance held in their EEFC account to repay the advance.

Ans :

(D) Use the balance held in their EEFC account to repay the advance.
The regulations for EEFC accounts provide a specific provision for this scenario. An account holder is permitted to use the funds in their EEFC account to repay packing credit advances, which can be in any currency, up to the actual value of the exports made. This allows for efficient management of export financing and foreign currency flows.

Oct/Nov 2022

15. A Resident Foreign Currency (RFC) Account is primarily intended for a person resident in India to hold foreign exchange that was:

(A) Received or acquired by him from specific overseas sources like pension or asset conversion.
(B) Earned from current exports of goods and services.
(C) Received as an advance payment for a future export contract.
(D) Acquired for the purpose of overseas travel from an authorised person.

Ans :

(A) Received or acquired by him from specific overseas sources like pension or asset conversion.
An RFC account is designed for a specific category of residents, typically those who have returned to India after being non-residents. It allows them to hold foreign exchange acquired from sources like overseas pensions, superannuation benefits, or by converting assets that were acquired when they were non-residents, without needing to immediately convert it to rupees.

May/June 2018

16. Which of the following is NOT a permitted credit into a Resident Foreign Currency (RFC) Account?

(A) Pension or superannuation benefits from an overseas employer.
(B) Honorarium received from a foreign entity for services rendered in India.
(C) Proceeds from converting assets acquired while being a non-resident.
(D) Maturity proceeds of an LIC policy settled in foreign currency.

Ans :

(B) Honorarium received from a foreign entity for services rendered in India.
An RFC account is meant for holding foreign assets and incomes repatriated to India. While it can be credited with overseas pensions, proceeds of repatriated assets, and certain insurance claims settled in forex, an honorarium for services rendered in India is typically a current income that would be credited to a different account, like an RFC(D).

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Oct/Nov 2016

17. The maturity proceeds of a Life Insurance Corporation (LIC) policy, settled in foreign currency by an Indian insurance company, can be credited to which type of account?

(A) Exchange Earner's Foreign Currency (EEFC) Account
(B) Resident Foreign Currency (RFC) Account
(C) Diamond Dollar Account (DDA)
(D) A standard domestic savings account only after conversion to INR

Ans :

(B) Resident Foreign Currency (RFC) Account
The regulations for RFC accounts explicitly permit the crediting of funds received as proceeds of life insurance policy claims, maturity, or surrender values, provided they are settled in foreign currency by an insurance company in India. This provision allows residents to retain such specific foreign currency receipts without immediate conversion to Indian Rupees.

May/June 2014

18. Mr. Kumar, an NRI for 10 years, has returned to India for permanent settlement, changing his residential status to 'Resident'. What is the appropriate regulatory treatment for the balances in his existing NRE and FCNR(B) accounts?

(A) The balances can be credited to a Resident Foreign Currency (RFC) account.
(B) The balances must be immediately converted to Indian Rupees.
(C) He can continue to hold and operate the NRE and FCNR(B) accounts as before.
(D) The balances must be transferred to an Exchange Earner's Foreign Currency (EEFC) account.

Ans :

(A) The balances can be credited to a Resident Foreign Currency (RFC) account.
When the residential status of an NRI/PIO changes to Resident, the regulations permit the balances held in their NRE and FCNR(B) accounts to be transferred to an RFC account. This allows the returning Indian to continue holding those funds in foreign currency, providing a smooth transition and flexibility in managing their repatriated assets.

NODIA

Oct/Nov 2007

19. In a Resident Foreign Currency (RFC) account, if a resident relative is added as a joint holder on a 'former or survivor' basis, what is their operational right during the lifetime of the primary account holder?

(A) They can operate the account freely as a joint holder.
(B) They can only operate the account with the primary holder's written permission for each transaction.
(C) They cannot operate the account at all.
(D) They can only make deposits but not withdrawals.

Ans :

(C) They cannot operate the account at all.
The 'former or survivor' mandate in this context has a specific meaning. The resident relative added as a joint holder is only an entitled beneficiary upon the death of the primary account holder. During the lifetime of the primary holder, this joint holder has no authority to operate the account or conduct any transactions.

May/June 2025

20. What is the primary purpose of a Resident Foreign Currency (Domestic) Account, or RFC (D) Account, for a resident individual?

(A) To hold large-scale export earnings before repatriation.
(B) To facilitate foreign direct investment into Indian companies.
(C) To manage pension funds received from overseas employers.
(D) To retain small amounts of foreign exchange acquired from various specified sources.

Ans :

(D) To retain small amounts of foreign exchange acquired from various specified sources.
The RFC (D) account is designed to allow resident individuals to retain foreign exchange acquired in India or abroad through specific, often smaller-scale, transactions. This includes unspent travel currency, gifts, or honorariums. It provides a convenient way to hold such funds in foreign currency without needing to convert them to rupees immediately.

Oct/Nov 2019

21. Which of the following is a permitted source of credit for an RFC (D) account, acquired in the

form of currency notes, bank notes, and travellers cheques?
(A) Foreign exchange received as a loan from a non-resident.
(B) Inward remittance for the export of goods.
(C) Unspent foreign exchange acquired from an authorised person for travel abroad.
(D) Foreign exchange purchased from another resident in India.

Ans :

(C) Unspent foreign exchange acquired from an authorised person for travel abroad.
One of the main utilities of an RFC (D) account is to park unspent foreign currency. A resident individual who acquires foreign exchange from an authorized person for a trip abroad can deposit any unspent amount into their RFC (D) account upon their return, instead of being required to convert it back to rupees.

May/June 2009

22. Which of the following sources of funds is NOT a permitted credit into a Resident Foreign Currency (Domestic) - RFC (D) account?
(A) Gift received from a relative.
(B) Proceeds of an export transaction.
(C) Honorarium received while on a visit outside India.
(D) Gift received from a non-resident person who is on a visit to India.

Ans :

(B) Proceeds of an export transaction.
An RFC (D) account is meant for specific personal receipts of foreign exchange, like gifts, honorariums, or unspent travel money. Proceeds from export transactions are considered trade earnings and are designated to be credited to an Exchange Earner's Foreign Currency (EEFC) account, not an RFC (D) account, which serves a different purpose.

Oct/Nov 2011

23. Who is eligible to open a Diamond Dollar Account (DDA) in India?
(A) Any resident individual who deals in precious metals.
(B) Non-Resident Indians engaged in the jewellery business.
(C) Foreign institutional investors investing in the gems and jewellery sector.
(D) Firms and companies that comply with the eligibility criteria in the Foreign Trade Policy.

Ans :

(D) Firms and companies that comply with the eligibility criteria in the Foreign Trade Policy.
The Diamond Dollar Account (DDA) Scheme is a specialized facility. It is not open to all residents but is restricted to firms and companies involved in the gems and diamond trade. Eligibility to open and maintain these accounts is strictly governed by the criteria stipulated in the Foreign Trade Policy of the Government of India.

May/June 2010

24. Which of the following transactions is a permitted credit in a Diamond Dollar Account (DDA)?
(A) Realisation of export proceeds of rough, cut, and polished diamonds.
(B) Foreign currency loans availed from banks in India.
(C) Inward remittances received as foreign direct investment.
(D) Interest earned on the account balance.

Ans :

(A) Realisation of export proceeds of rough, cut, and polished diamonds.
The DDA scheme is specifically tailored for the diamond industry. A key permitted credit to this account is the realisation of proceeds from both exports and local sales (denominated in USD) of rough, cut, and polished diamonds. This allows businesses in this sector to manage their foreign currency cash flows from their core operations effectively.

Oct/Nov 2024

25. With respect to interest earnings, what is the specified nature of a Diamond Dollar Account (DDA)?
(A) It is a high-interest savings account.
(B) It is an interest-bearing current account with market-linked rates.
(C) It is a non-interest bearing current account.
(D) Interest is accrued but can only be withdrawn in Indian Rupees.

Ans :

(C) It is a non-interest bearing current account.
A key condition of the Diamond Dollar Account (DDA) scheme is that the account must be a non-interest bearing current account. This means that

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firms and companies maintaining a DDA are not entitled to earn any interest on the balances held. The primary purpose of the account is transactional convenience, not investment returns.

May/June 2017

26. What is the mandatory requirement concerning the total accruals during a calendar month in EEFC, RFC(D), and DDA accounts?

(A) They must be converted into Rupees on or before the last day of the succeeding calendar month.

(B) They must be converted into Rupees on or before the last day of the same calendar month.

(C) They can be retained in foreign currency for a period of up to one year.

(D) They must be transferred to an FCNR(B) account by the month-end.

Ans :

(A) They must be converted into Rupees on or before the last day of the succeeding calendar month.

To limit the indefinite holding of foreign currency, regulations stipulate a specific timeline for conversion. The sum total of all credits received in EEFC, RFC(D), and DDA accounts during a calendar month must be converted into Indian Rupees on or before the last day of the next calendar month, after accounting for permitted utilisation.

Oct/Nov 2005

27. If a resident individual holding an EEFC or RFC (D) account subsequently becomes a non-resident, what is the permissible treatment of the account balance?

(A) The account must be closed immediately, and the balance converted to Rupees.

(B) The account can continue to be operated as an EEFC or RFC (D) account.

(C) The balance is automatically forfeited to the RBI.

(D) The balance may be credited to an NRE or FCNR (B) account.

Ans :

(D) The balance may be credited to an NRE or FCNR (B) account.

Regulations provide for a smooth transition when a resident's status changes to non-resident. In such cases, the balances held in their EEFC or RFC (D) accounts can be transferred or credited to their NRE or FCNR (B) accounts, which are the appropriate account types for non-residents to hold their funds.

NODIA

May/June 2020

28. For what primary purpose can an Indian agent of a shipping or airline company, which is incorporated outside India, maintain a foreign currency account in India?

(A) To invest in the Indian capital market on behalf of the principal.

(B) To meet the local expenses of the overseas company in India.

(C) To pay dividends to the shareholders of the foreign company.

(D) To receive deposits from the general public in India.

Ans :

(B) To meet the local expenses of the overseas company in India.

This specific provision allows Indian agents of foreign transport companies to manage local operational costs efficiently. The foreign currency account can be used for meeting local expenses in India. It can be credited with funds from freight or passage fare collections in India or with remittances from their overseas principal for this purpose.

Oct/Nov 2015

29. Which of the following is a correct condition applicable to a non-interest bearing foreign currency account held by a ship-manning or crew managing agency in India?

(A) Credit facilities can be availed against the account balance.

(B) Remittances received are also eligible for the EEFC facility.

(C) Credits are limited to inward remittances from the overseas principal.

(D) The account can remain open indefinitely after the agreement expires.

Ans :

(C) Credits are limited to inward remittances from the overseas principal.

These specialized accounts have strict funding rules. The only permitted credits are inward remittances received through normal banking channels directly from the overseas principal for

May/June 2015

38. When a resident of India opens a foreign currency account outside India for the purpose of studies abroad, what is the status of that account upon their return to India?

(A) It must be closed immediately and funds repatriated.

(B) It is deemed to be an account under the Liberalised Remittance Scheme (LRS).

(C) It automatically converts to a domestic rupee account.

(D) It can be maintained abroad indefinitely without any change.

Ans :

(B) It is deemed to be an account under the Liberalised Remittance Scheme (LRS).

The regulations provide a framework for handling such accounts post-return. When the student, who was temporarily non-resident, returns to India and becomes a resident again, the foreign account they maintained for their studies is then considered to be held under the provisions of the Liberalised Remittance Scheme (LRS), subject to its associated rules and limits.

Oct/Nov 2012

39. When a resident opens a foreign currency account outside India while participating in an exhibition or trade fair, for what specific purpose can this account be used?

(A) For paying the salaries of their employees in India.

(B) For making portfolio investments in the foreign country.

(C) For receiving personal gifts from foreign nationals.

(D) For crediting the sale proceeds of goods from the exhibition.

Ans :

(D) For crediting the sale proceeds of goods from the exhibition.

This provision is specifically designed to facilitate international trade promotion activities. A resident participating in an overseas trade fair or exhibition is permitted to open a temporary foreign currency account in that country. The express purpose of this account is to deposit the sales proceeds of goods sold during that specific event.

May/June 2011

40. Which of the following persons or entities is NOT permitted to open a business-related foreign currency account with a bank outside India?

(A) A resident individual for personal investment purposes unrelated to LRS.

(B) An Indian shipping or airline company.

(C) An exporter of services on deferred payment terms.

(D) An AD bank in India with its correspondent outside India.

Ans :

(A) A resident individual for personal investment purposes unrelated to LRS.

While residents can open accounts abroad under LRS, the specific permissions for business-related accounts are for entities with clear overseas operations. These include AD banks, transport companies, and certain exporters. A resident individual cannot open a business-related account abroad for general personal investments outside the specific framework of the Liberalised Remittance Scheme (LRS).

Oct/Nov 2020

41. Which of the following categories of employed persons can hold a foreign currency account with a bank outside India for remitting or receiving their salary payable to them in India?

(A) A foreign citizen on a tourist visa in India.

(B) An Indian citizen working for the Indian government in an embassy abroad.

(C) A foreign citizen on deputation to the office of a foreign company in India.

(D) An Indian citizen employed with a company in India with no foreign travel.

Ans :

(C) A foreign citizen on deputation to the office of a foreign company in India.

This provision caters to expatriates. A foreign citizen who is on deputation to an office, subsidiary, or other entity of a foreign company in India is permitted to maintain a foreign currency account outside India. This facilitates the management of their salary and other financial affairs between their home country and their place of deputation.

May/June 2022

42. Authorised Dealers are permitted to allow the remittance of assets by a foreign national (not

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obligations directly from the foreign currency funds received as fees.

May/June 2006

34. What is the stipulated timeline for closing a temporary foreign currency account opened for an international seminar or conference?
(A) Immediately after the conference/event is over.
(B) Within 30 days after the event is over.
(C) Within 6 months after the event is over.
(D) At the end of the financial year in which the event was held.

Ans :

(A) Immediately after the conference/event is over.
These accounts are explicitly temporary in nature and are tied to a specific event. The regulations mandate that the account must be closed immediately after the conference, seminar, or convention is concluded. Any remaining balance is typically converted to rupees or remitted back as per the rules, ensuring the account does not persist beyond its purpose.

Oct/Nov 2017

35. A unit located in a Special Economic Zone (SEZ) can use the balances in its foreign currency account for bona fide trade transactions, but is specifically restricted from using them for which purpose?
(A) Payment for import of raw materials.
(B) Repayment of a trade credit.
(C) Making a gift.
(D) Payment for services from a person resident outside India.

Ans :

(C) Making a gift.
While SEZ units are given considerable freedom to use their foreign currency account balances for most business-related transactions, there are certain restrictions. The regulations explicitly state that the balances can be used freely for bona fide trade but cannot be used for purposes like making a gift, which is considered a non-trade, capital account transaction.

May/June 2008

36. An Indian company that has received foreign investment under the FDI route is permitted to hold a foreign currency account for impending expenditure. This account must be closed within what timeframe?
(A) Within 12 months or when the need is over, whichever is later.
(B) Within 3 months from the date of receiving funds.
(C) The account can be maintained as long as the company is operational.
(D) When the need is over or within 6 months, whichever is earlier.

Ans :

(D) When the need is over or within 6 months, whichever is earlier.
This facility is purpose-bound and time-limited. The account is meant to hold funds for a specific, impending foreign currency expenditure (e.g., import of capital goods). The regulation requires the account to be closed as soon as that expenditure is made or within a maximum period of 6 months, whichever event occurs first.

NODIA

Oct/Nov 2013

37. Match the entity in List-I with the corresponding rule for their foreign currency account in List-II.
List-I (Entity)
P. Ship-manning agency
Q. SEZ Unit
R. Project Office
S. DDA Holder
List-II (Rule)
1. Cannot use funds for making a gift.
2. Account is non-interest bearing and for diamond trade.
3. No EEFC facility is allowed for remittances received.
4. Only one foreign currency account is allowed per project.
(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-3, Q-1, R-4, S-2
The correct matching is as follows: A Ship-manning agency (P) is explicitly not allowed the EEFC facility (3). An SEZ Unit (Q) cannot use its foreign currency funds to make a gift (1). A Project Office (R) is restricted to one account per project (4). A DDA Holder (S) has a non-interest bearing account for diamond trade (2).

Ans :

(D) The donation, delivery, or transfer of any article, currency, or security from a foreign source.

The definition of 'foreign contribution' under FCRA is very broad. It includes any donation, delivery, or transfer from a foreign source, which can be an article (excluding personal gifts below a certain value), currency (Indian or foreign), or any security. This wide definition aims to regulate all forms of foreign funding to Indian entities.

Oct/Nov 2014

47. According to the source text below, which of the following is generally specified as an exception to the definition of a 'foreign source' under FCRA?

"'foreign source' is given an inclusive definition... it covers foreign governments and its agencies, any international agencies (other than certain specified agencies such as United Nations, World Bank, etc.), foreign citizens, foreign companies and foreign corporations..."

(A) The World Bank
(B) All foreign companies
(C) All foreign citizens
(D) All foreign governments

Ans :

(A) The World Bank

The text provides a definition of 'foreign source' but also notes specific exceptions. It explicitly states that certain specified international agencies, such as the United Nations and the World Bank, are excluded from this definition. This means contributions from these specific bodies are not treated as 'foreign contribution' under the general provisions of the Act.

May/June 2021

48. Under the Foreign Contribution (Regulation) Act, 2010, which of the following is NOT in the list of persons or entities absolutely prohibited from receiving foreign contributions?

(A) Candidate for election.
(B) A person having a definite cultural, economic, educational, religious or social programme.
(C) A public servant, Judge, or Government servant.
(D) A political party or its office bearers.

Ans :

(B) A person having a definite cultural, economic, educational, religious or social programme.

The FCRA prohibits certain categories like candidates for election, public servants, and political parties from receiving any foreign contribution. However, a person or association with a definite cultural, economic, educational, religious, or social programme is the very category of entity that can receive foreign contribution, provided they obtain the required registration or prior permission.

Oct/Nov 2009

49. Consider the following statements:

Assertion (A): An editor of a registered newspaper is prohibited from receiving foreign contributions under FCRA, 2010.

Reason (R): The FCRA, 2010 aims to regulate foreign influence on key areas of national importance, including media and journalism.

In the context of these two statements, which of the following is correct?

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).

Assertion (A) is true; the Act explicitly prohibits correspondents, columnists, editors, owners, printers, or publishers of registered newspapers from receiving foreign contributions. Reason (R) is also true and provides the correct rationale. The prohibition is in place to safeguard the integrity of the media and prevent undue foreign influence on public discourse.

May/June 2016

50. According to the Foreign Contribution (Regulation) Act, what is the definition of 'foreign hospitality'?

(A) Any offer, not being purely casual, from a foreign source covering costs like travel or lodging.
(B) Any offer of friendship from a foreign national.
(C) Any gift received from a foreign source, irrespective of its value.

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being a PIO) who has inherited assets from a deceased spouse, provided the deceased spouse held what status?

(A) An Indian national resident in India.
(B) A foreign national who was also not a PIO.
(C) A Person of Indian Origin (PIO) resident outside India.
(D) A non-resident who owned assets only outside India.

Ans :

(A) An Indian national resident in India.
This rule facilitates the repatriation of inherited assets for a non-resident widow/widower. The remittance is permissible if the person is a non-resident widow/widower who has inherited assets from their deceased spouse, and that deceased spouse was an Indian national who was resident in India at the time of their death.

Oct/Nov 2018

43. Which of the following is NOT a permissible mode for a person resident in India to acquire immovable property outside India?

(A) By way of gift from a person who acquired it when they were resident outside India.
(B) By purchasing it out of funds held in a Resident Foreign Currency (RFC) account.
(C) By acquiring it jointly with a relative resident outside India, with no fund outflow from India.
(D) By purchasing it using a loan taken from a bank in India in Indian Rupees.

Ans :

(D) By purchasing it using a loan taken from a bank in India in Indian Rupees.
The regulations specify clear sources of funds for acquiring property abroad. These include using foreign exchange from an RFC account or under LRS, inheritance, or joint acquisition without fund outflow from India. Taking a loan in Indian Rupees from a bank in India to purchase property abroad is not a permitted mode under these rules.

May/June 2005

44. A person resident in India wishes to purchase a flat in London. They have a Resident Foreign Currency (RFC) account with a sufficient balance. As per FEMA regulations, is this a valid method for funding the acquisition?

(A) No, RFC account funds can only be used for current account transactions.
(B) Yes, this is a specifically permitted use of funds held in an RFC account.
(C) No, property outside India can only be acquired through inheritance.
(D) Yes, but only after receiving special permission from the RBI for every such purchase.

Ans :

(B) Yes, this is a specifically permitted use of funds held in an RFC account.
The regulations governing the acquisition of property abroad by a resident provide specific avenues. One of the explicitly permitted modes is to purchase such property using the foreign exchange balances held in the resident's Resident Foreign Currency (RFC) account. This allows returning Indians to use their legitimately held foreign assets for investments abroad.

Oct/Nov 2023

45. On which date did the Foreign Contribution (Regulation) Act, 2010 (FCRA) officially replace the preceding Foreign Contribution (Regulation) Act, 1976?

(A) September 20, 2020
(B) July 8, 1947
(C) May 1, 2011
(D) April 1, 2010

Ans :

(C) May 1, 2011
The legislative transition from the old act to the new one occurred on a specific date. The Foreign Contribution (Regulation) Act, 2010, which currently governs the acceptance and utilization of foreign contributions and hospitality, came into force on May 1, 2011. This new act replaced the earlier legislation, the FCRA of 1976.

May/June 2019

46. Under the Foreign Contribution (Regulation) Act, 2010, what does the term 'foreign contribution' primarily encompass?

(A) Only currency transfers from foreign governments.
(B) Only gifts for personal use below a specified value.
(C) Commercial payments received for goods and services exported from India.
(D) The donation, delivery, or transfer of any article, currency, or security from a foreign source.

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CHAPTER 11

Cash Management Services and Its Importance

Oct/Nov 2010

1. What are the three core activities that the term 'cash management' refers to?
(A) Auditing, reporting, and investing
(B) Collection, concentration, and disbursement
(C) Budgeting, forecasting, and lending
(D) Saving, borrowing, and hedging

Ans :

(B) Collection, concentration, and disbursement
Cash management is fundamentally defined by the processes of collecting cash from various sources, concentrating it in desired locations or accounts, and then disbursing it for payments. These three activities form the operational core of managing a company's cash flow, encompassing liquidity levels, cash balances, and short-term investment strategies to optimize financial resources.

May/June 2024

2. What is the fundamental objective of cash management for a business?
(A) Optimisation of liquidity through improved flow of funds
(B) Maximisation of long-term investments
(C) Reduction of the total number of bank accounts
(D) Complete elimination of physical cash handling

Ans :

(A) Optimisation of liquidity through improved flow of funds
The primary goal of implementing a cash management system is to ensure that a company's liquidity is optimized. This is achieved by improving the flow of funds, which involves accelerating collections and controlling disbursements. Effective management of cash flow helps in maintaining an ideal level of liquidity to meet obligations without holding excessive, non-productive cash.

Oct/Nov 2019

3. According to a study by Killen and Associates, how much could the top 400 Canadian enterprises save annually by applying emerging electronic cash management strategies?
(A) 10 billion
(B) 15 billion
(C) 23 billion
(D) 30 billion

Ans :

(C) 23 billion
A study conducted by Killen and Associates highlighted the significant financial benefits of modern cash management. The findings indicated that the top 400 Canadian enterprises stood to save approximately 23 billion annually. This was achievable by adopting and implementing emerging electronic cash management strategies, underscoring the immense potential for cost reduction and efficiency gains.

NODIA

May/June 2008

4. Which of the following is NOT an objective of a cash management system for a corporate entity?
(A) To improve revenue and maximize profits
(B) To minimize costs and establish efficient management systems
(C) To assist and accelerate growth
(D) To focus primarily on long-term capital appreciation

Ans :

(D) To focus primarily on long-term capital appreciation
The objectives of a cash management system are operational and focused on efficiency and profitability in the short to medium term. These include improving revenue, maximizing profits, minimizing costs, and establishing

(D) Any invitation to attend an international conference.

Ans :

(A) Any offer, not being purely casual, from a foreign source covering costs like travel or lodging.
The term 'foreign hospitality' is defined specifically to regulate benefits that could create influence. It means any offer from a foreign source that covers costs of travel to a foreign country, or free boarding, lodging, transport, or medical treatment. The key qualifier is that the offer must not be "purely casual" in nature.

Oct/Nov 2025

51. Consider the following statements regarding restrictions on the acceptance of foreign hospitality:
Statement I: A Judge, while visiting any country outside India, can accept foreign hospitality without any approvals.
Statement II: An office-bearer of a political party, while visiting outside India, must seek prior permission from the Central Government to accept foreign hospitality.
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Ans :

(B) Only Statement II is correct.
The FCRA imposes restrictions on certain individuals. Statement II is correct as office-bearers of political parties are on the list of persons requiring prior government permission. Statement I is incorrect because Judges are also on this restricted list and cannot accept foreign hospitality without prior permission from the Central Government, except for purely casual offers.

May/June 2007

52. What is the key prohibition placed on a person who is registered under FCRA and receives a foreign contribution?
(A) They cannot invest the contribution in any financial instrument.
(B) They cannot use more than 10% of the contribution for administrative expenses.
(C) They must utilize the entire contribution within one financial year.
(D) They shall not transfer such foreign contribution to any other person.

Ans :

(D) They shall not transfer such foreign contribution to any other person.
A significant provision of the FCRA, strengthened by the 2020 amendment, is the prohibition on the transfer of foreign contributions. A person or entity that receives foreign funds cannot act as an intermediary and transfer it to another person or entity, effectively preventing the creation of a chain of fund distribution from the primary recipient.

Oct/Nov 2010

53. What is the fundamental difference between obtaining a 'Certificate of Registration' and 'Prior Permission' under FCRA for accepting foreign contributions?
(A) Registration is for large amounts, while prior permission is for small amounts.
(B) Registration allows receiving funds from any source, while prior permission is source-specific.
(C) Registration is for established entities, while prior permission is for a specific amount from a specific source.
(D) Registration is permanent, while prior permission is valid for one year.

Ans :

(C) Registration is for established entities, while prior permission is for a specific amount from a specific source.
Registration is granted to established associations with a proven track record, allowing them to receive foreign contributions for five years. Prior permission is a one-time approval for entities not yet registered, or for a specific project, and is valid only for a specific amount of contribution to be received from a specific foreign source.

May/June 2012

54. What is the validity period for a Certificate of Registration granted under the Foreign Contribution (Regulation) Act, after which it needs to be renewed?
(A) Three years
(B) Five years
(C) Ten years

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whom the agency is managing ships or crew. This ensures the account is used solely for its intended purpose of managing crew-related payments and operational expenses on behalf of the principal.

May/June 2013

30. For a foreign currency account maintained by a ship-manning agency in India, which facility is explicitly disallowed for the remittances received in the account?

(A) Payment of crew wages in foreign currency.
(B) Remittance of surplus funds back to the overseas principal.
(C) Payment for ship repairs and maintenance.
(D) EEFC (Exchange Earner's Foreign Currency) facility.

Ans :

(D) EEFC (Exchange Earner's Foreign Currency) facility.
The regulations for accounts of ship-manning agencies are distinct and self-contained. It is specifically mentioned that no EEFC facility is allowed for the remittances received in this type of account. The funds are meant for a specific operational flow and are not treated as general foreign exchange earnings eligible for the EEFC scheme.

Oct/Nov 2021

31. What is the maximum number of foreign currency accounts that a project office of a foreign company is permitted to open for a single, specific project in India?

(A) One account only.
(B) Two accounts, one for credits and one for debits.
(C) Multiple accounts as per project requirements.
(D) One account per foreign currency involved in the project.

Ans :

(A) One account only.
To ensure clear financial tracking and regulatory oversight for foreign projects in India, the rule is very specific. Each approved project is permitted to have only one dedicated foreign currency account. This prevents the commingling of funds and simplifies the monitoring of receipts and expenditures related to that particular project contract.

May/June 2024

32. A foreign company's project office in India, which holds a foreign currency account, enters into a legal dispute with the project sanctioning authority. What is the prescribed regulatory treatment for the balance funds in the account during the dispute?

(A) The funds are frozen and cannot be accessed by anyone.
(B) The balance is converted into INR and credited to a special account.
(C) The funds are immediately remitted back to the parent company abroad.
(D) The project office can continue to use the funds for other projects in India.

Ans :

(B) The balance is converted into INR and credited to a special account.
Regulations provide a specific mechanism to handle funds in case of disputes involving project offices. If a dispute arises between the project office and the project authority or government agencies, the balance held in the foreign currency account is to be converted into Indian Rupees and transferred to a special account, pending resolution.

Oct/Nov 2008

33. Which of the following is a permitted debit from a temporary foreign currency account opened by organisers of an international conference in India?

(A) Investment in short-term government securities.
(B) Payment of honorarium to foreign guest speakers.
(C) Purchase of office equipment for the organising committee.
(D) Lending of funds to another conference organiser.

Ans :

(B) Payment of honorarium to foreign guest speakers.
These temporary accounts are for managing conference-specific cash flows. Permitted debits include payments to foreign or special invitees for their travel and hotel charges, as well as payment of honorariums to foreign guest speakers. This allows organisers to settle their foreign currency

NODIA

3. The purposes for which the contribution was utilised.

(A) Only 1 and 2
(B) Only 2 and 3
(C) Only 1 and 3
(D) All 1, 2, and 3

Ans :

(D) All 1, 2, and 3
To ensure comprehensive oversight, the FCRA mandates detailed reporting by the recipient. The intimation submitted to the Central Government must include the amount of each contribution, the specific source (donor), the manner of receipt, and importantly, the purposes for which the funds were ultimately utilised, ensuring accountability from receipt to end-use.

Oct/Nov 2016

59. According to the rule stated in the source below, what is the deadline for an FCRA-registered entity to post its audited annual accounts on its website?
"Rule 13 of the said Rules stipulates... A person who has been granted a certificate of registration... shall place on its official website... the audited statement of accounts... for every financial year beginning on the first day of April within nine months of the closure of the financial year."

(A) Within 15 days of the closure of the financial year.
(B) Within six months of the closure of the financial year.
(C) On the first day of the next financial year.
(D) Within nine months of the closure of the financial year.

Ans :

(D) Within nine months of the closure of the financial year.
The source text from Rule 13 clearly specifies the timeline for financial disclosure to ensure public transparency. An FCRA-registered person or entity must place its complete audited financial statements, including the balance sheet and income/expenditure account, on its website within nine months from the end of the financial year (i.e., by December 31st).

May/June 2014

60. According to the source text below, what is the mandatory reporting timeframe for banks to the Central Government regarding any transaction involving a foreign contribution?
"The bank shall report to the Central Government within 48 hours any transaction in respect of receipt or utilisation of any foreign contribution by any person whether or not such person is registered or granted prior permission under the FCRA."

(A) Within 7 working days
(B) Within 48 hours
(C) Within 15 days
(D) At the end of every month

Ans :

(B) Within 48 hours
The provided rule mandates swift reporting by banks to enable near real-time monitoring by authorities. A bank must report any transaction related to the receipt or utilization of a foreign contribution to the Central Government (Ministry of Home Affairs) within 48 hours. This applies to every such transaction, regardless of the recipient's FCRA status.

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(D) It is valid permanently unless cancelled.

Ans :

(B) Five years

A Certificate of Registration under FCRA is not a permanent license. It is granted for a specific duration to ensure periodic review of the entity's compliance and activities. The certificate is valid for a period of five years and must be renewed by applying within six months before its expiry to continue receiving foreign contributions.

Oct/Nov 2006

55. Based on the rule below, what is the primary purpose of the 'FCRA Account' opened in a scheduled bank other than SBI?

"(i) A person shall receive foreign contribution only in an account designated as 'FCRA Account' opened in New Delhi Main Branch of State Bank of India (SBI).

(ii) Such person may open another 'FCRA Account' in any of the scheduled bank of his choice for keeping or utilising the foreign contribution transferred from the 'FCRA Account' in SBI."

(A) To receive foreign contributions directly from abroad.

(B) To serve as a backup if the SBI account is inoperative.

(C) To deposit domestic donations received by the organization.

(D) For keeping or utilising funds transferred from the main SBI FCRA account.

Ans :

(D) For keeping or utilising funds transferred from the main SBI FCRA account.

The rule establishes a two-tier account structure. The SBI New Delhi Main Branch account is the sole gateway for receiving foreign funds. Any other "FCRA Account" in another scheduled bank is for secondary purposes—specifically, for holding and utilizing the funds after they have been transferred from the primary SBI account, not for direct receipt.

May/June 2023

56. A charitable trust in Mumbai, registered under FCRA, is set to receive a grant of USD 50,000 from a foundation in Germany. Into which specific bank account must this grant be directly credited as per the regulations effective from September 2020?

(A) The designated FCRA Account opened in the New Delhi Main Branch of the State Bank of India.

(B) Any foreign currency account held by the trust in Mumbai.

(C) A Resident Foreign Currency (RFC) account of the trust's chairman.

(D) A current account with any scheduled commercial bank in Mumbai.

Ans :

(A) The designated FCRA Account opened in the New Delhi Main Branch of the State Bank of India.

The FCRA rules, as amended, are highly specific about the receipt of foreign funds. All foreign contributions must first be credited to a single, designated "FCRA Account" opened at the New Delhi Main Branch of the State Bank of India. No other bank branch or account is authorized to receive such funds directly from abroad.

Oct/Nov 2022

57. What type of funds are explicitly forbidden to be received or deposited into any designated "FCRA Account"?

(A) Funds from a foreign source that is not a government.

(B) Foreign contributions below a certain threshold amount.

(C) Funds other than foreign contribution.

(D) Repayment of loans given by the organization.

Ans :

(C) Funds other than foreign contribution.

The FCRA Account is meant exclusively for foreign contributions to ensure transparency and prevent the mixing of funds. The regulations explicitly state that no funds other than foreign contributions shall be received or deposited in such an account. This means domestic donations or other income of the organization must be kept in separate, regular bank accounts.

May/June 2018

58. Regarding the intimation to be submitted by a recipient of foreign contribution, which of the following details are required by the Central Government?

1. The amount of each foreign contribution received.
2. The source from which the contribution was received.

systems for growth. Focusing on long-term capital appreciation is typically the domain of investment management, not the day-to-day operational focus of cash management.

Oct/Nov 2005

5. What are the two primary reasons cited for the significant changes in cash management over the past few decades?

(A) Decreased interest rates and manual processing advancements
(B) Increased regulatory oversight and a decline in global trade
(C) An upward trend in interest rates and technological developments
(D) A shift to commodity currency and reduced corporate competition

Ans :

(C) An upward trend in interest rates and technological developments
The evolution of cash management has been driven by two main factors. Firstly, rising interest rates increased the opportunity cost of holding idle cash, making efficient cash utilization crucial. Secondly, significant technological developments, particularly the advent of computerized electronic funds transfer mechanisms, provided the tools to manage cash more effectively and in real-time across geographies.

May/June 2017

6. For large corporations like IBM and General Motors with numerous bank accounts, what was the primary need that a sophisticated cash management system addressed?

(A) A system to consolidate all banking relationships into a single master account
(B) A system to transfer funds from where they were surplus to where there was a deficit
(C) A system to automate the process of opening and closing new bank accounts
(D) A system to exclusively handle international currency transactions and hedging

Ans :

(B) A system to transfer funds from where they were surplus to where there was a deficit
Large firms with multiple operational units and bank accounts face the challenge of imbalanced funds, where some accounts have a surplus while others have a deficit. A key function of a cash management system is to provide a coordinating mechanism to efficiently transfer funds from surplus locations to deficit locations, ensuring optimal liquidity across the entire organization.

Oct/Nov 2012

7. Which of the following is NOT one of the payment system initiatives undertaken by the RBI since the mid-eighties to strengthen the country's payment mechanism?

(A) National Electronic Funds Transfer (NEFT)
(B) Cheque Truncation System (CTS)
(C) Real Time Gross Settlement System (RTGS)
(D) Automated Teller Machine (ATM) network integration

Ans :

(D) Automated Teller Machine (ATM) network integration
The RBI has introduced numerous initiatives like NEFT, RTGS, CTS, NACH, and UPI to create a state-of-the-art payment infrastructure. While ATM network integration is crucial for retail banking, the text specifically lists initiatives like MICR, ECSS, DvP, INFINET, CFMS, SSS, and SFMS as key measures by the RBI to strengthen the payments mechanism for corporate and inter-bank transactions.

May/June 2005

8. What does the acronym SFMS stand for in the context of Indian payment infrastructure?

(A) Structured Financial Messaging System
(B) System for Financial Messaging and Settlement
(C) Secure Funds Messaging Service
(D) Standardized Financial Messaging Solution

Ans :

(A) Structured Financial Messaging System
The Structured Financial Messaging System (SFMS) is a key component of India's state-of-the-art payment infrastructure. It provides a secure and standardized messaging platform for intra-bank and inter-bank applications. This system is crucial for facilitating communication and transactions between financial institutions, supporting systems like RTGS and NEFT, thereby enhancing the efficiency and security of the overall payment ecosystem.

Oct/Nov 2021

9. The introduction of which system by the RBI facilitated nationwide grid clearing?

(A) Real Time Gross Settlement (RTGS) System

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Ans :

(B) By shifting toward products that generate non-interest income

To counteract the erosion of traditional interest-based income streams, banks have strategically shifted their focus. They now actively sell 'non-bank' fee-based financial services, such as cash management, and charge explicit fees for services that were previously bundled. This strategy helps them generate non-interest income, creating a more diversified and stable revenue base.

May/June 2007

18. According to a study by Killen Associates titled 'Fee-Based Financial Services Markets', what trend is expected in the financial services market?

(A) The market for retail and commercial fee-based services will exceed that for interest-based services globally

(B) The market for traditional interest-based services will significantly outgrow the emerging fee-based market

(C) Fee-based services will become obsolete due to the widespread rise of free digital banking platforms

(D) Both fee-based and interest-based markets will decline in favor of decentralized cryptocurrency services

Ans :

(A) The market for retail and commercial fee-based services will exceed that for interest-based services globally

The Killen Associates study highlights a major shift in financial services revenue models. It projects that the global market for fee-based services, both retail and commercial, will eventually become larger than the market for traditional interest-based services. This forecast underscores the strategic importance for banks to develop and promote services that generate fee income.

Oct/Nov 2025

19. Which of the following is NOT a reason for banks to aim for fee-based services like cash management to be a primary profit source?

(A) This revenue is more stable over time compared to volatile interest-rate-dependent income

(B) It assures a steady and predictable income stream from recurring service fees

(C) It requires less technological investment than other banking products

(D) It leads to a strong, long-term relationship with the corporate client, fostering loyalty

Ans :

(C) It requires less technological investment than other banking products

Banks pursue fee-based services because they provide stable and steady revenue, which is less volatile than interest income, and they help build strong, long-term relationships with corporate clients. However, offering sophisticated cash management services requires substantial and continuous investment in technology to remain competitive and secure, making the distractor statement incorrect.

May/June 2012

20. Which categories of banks in India are active in the cash management segment?

(A) Only new generation private sector banks and foreign banks

(B) Only public sector banks and old private banks

(C) Only small finance banks and payment banks

(D) All categories, including public sector, private, foreign, small finance, and payment banks

Ans :

(D) All categories, including public sector, private, foreign, small finance, and payment banks

The cash management services market in India is highly competitive and features participation from a wide spectrum of banking institutions. All major categories of banks, including public sector banks, old and new private banks, foreign banks, and even newer entrants like small finance banks and payment banks, are actively offering these services to corporate clients.

Oct/Nov 2014

21. Based on the following list of products offered by banks: 1. Cash Collection Service 2. Direct Credit by Funds Transfer 3. Cheque/DD Drawing Arrangement 4. NEFT Payment Electronic Channels 5. Receivables Management/Cheque Collections Which product specifically addresses the management of a company's payables such as supply chain payments and salary payments?

(A) Cash Collection Service

(B) Receivables Management/Cheque Collections

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(B) By outsourcing all of its core functions to a third-party financial services provider
(C) By transforming it into a profit-centre through cash optimization and good use of funds
(D) By limiting its role strictly to statutory compliance and financial reporting tasks

Ans :

(C) By transforming it into a profit-centre through cash optimization and good use of funds
Effective cash management elevates the treasury function beyond a mere administrative or cost-control role. By actively optimizing cash, pooling funds internationally to offset debts with surpluses, and making strategic use of liquidity, the treasury can directly contribute to profitability. This transforms it into a proactive profit-centre that enhances the company's competitive edge and overall productivity.

May/June 2014

14. Unilever, a global corporation, has numerous bank accounts worldwide to manage sales receipts and payments near the point of business. For instance, sales receipts from America are paid into local banks there. What is the primary need for a co-coordinating system in this scenario?
(A) To ensure all local banks use the same software platform
(B) To negotiate uniform bank charges across all countries
(C) To automatically convert all receipts into a single base currency
(D) To transfer funds from locations with a surplus to where they are needed

Ans :

(D) To transfer funds from locations with a surplus to where they are needed
For a multinational like Unilever, local transactions lead to funds accumulating in numerous accounts. The primary challenge is that inflows and outflows in each account do not balance. A co-coordinating system is essential to manage these disparate balances by identifying surplus funds in one region (like America) and efficiently transferring them to other regions that require funds.

Oct/Nov 2009

15. What is the ultimate purpose of proper management of liquidity for a corporation?
(A) To improve the overall productivity of funds
(B) To secure the highest possible credit rating
(C) To prepare the company for a merger or acquisition
(D) To increase the company's market share

Ans :

(A) To improve the overall productivity of funds
While liquidity management has several benefits, its ultimate purpose is to enhance the overall productivity of the company's funds. This means ensuring that every dollar is working for the company, either by funding operations, reducing debt costs, or earning returns. It is about making the company's financial resources as efficient and effective as possible in generating value.

May/June 2022

16. What two factors have eroded banks' traditional comparative advantages and enabled non-bank competitors to enter their domains?
(A) Increased regulation and a stable technological environment
(B) Deregulation and new technology
(C) A global recession and decreased customer demand
(D) Strict capital adequacy norms and traditional product lines

Ans :

(B) Deregulation and new technology
The banking landscape has been reshaped by deregulation, which removed many entry barriers, and rapid technological advancements. These forces have diminished the exclusive advantages banks once held. New technology, in particular, has made it easier for non-bank entities to offer financial services that were previously the sole domain of banks, leading to increased competition in the sector.

Oct/Nov 2018

17. In response to increased competition from non-bank entities, how have banks shifted their sales mix?
(A) By focusing exclusively on high-interest-rate loan products
(B) By shifting toward products that generate non-interest income
(C) By reducing the number of services offered to corporate clients
(D) By increasing their reliance on government-backed securities

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The correct matching is as follows: Cheque/DD Drawing Arrangement (P) is offered on a pre-funding or post-funding basis (4). Receivables Management (Q) provides local and upcountry clearing solutions (3). NACH payment facility (R) is used for periodical disbursements or receipts (1). Direct Credit by Funds Transfer (S) is for managing payables like salaries (2).

May/June 2018

26. In addition to standard CMS offerings, what types of services do Foreign Banks operating in India often provide?

(A) Regional and Global Treasury Management Services and e-Commerce Solutions
(B) Primarily agricultural lending and microfinance
(C) Only domestic retail banking services
(D) Subsidized government-sponsored scheme management

Ans :

(A) Regional and Global Treasury Management Services and e-Commerce Solutions
Foreign Banks in India often leverage their global network and advanced technological capabilities to offer a broader suite of services to corporate clients. These typically include sophisticated solutions like Regional and Global Treasury Management, Liquidity Management, e-Commerce Solutions, and Investment Solutions, in addition to the standard collection and payment management services offered by domestic banks.

Oct/Nov 2007

27. What is described as the key differentiator between a successful bank and another in the context of cash management services?

(A) The number of branches the bank has
(B) The age and reputation of the bank
(C) The interest rates it offers on corporate deposits
(D) The stress it lays on technology

Ans :

(D) The stress it lays on technology
In the modern cash management landscape, technology is the critical enabling factor and a key differentiator. A bank's success in this area is heavily dependent on its investment in and effective use of technology to provide seamless, secure, and efficient solutions. A strong emphasis on technology allows a bank to offer superior services and stay ahead of competitors.

May/June 2025

28. A bank is developing a CMS solution for a manufacturing client. According to the challenges listed for bankers, what is a crucial first step the banker must take to propose an effective solution?

(A) Immediately offer the bank's most popular pre-packaged software solution
(B) Understand the accounting and control side of the client's business and industry
(C) Focus only on reducing the client's number of physical cheque payments
(D) Propose a solution based on what the client's main competitor is using

Ans :

(B) Understand the accounting and control side of the client's business and industry
To be a strategic partner, a banker cannot offer a generic solution. The first and most critical challenge is to deeply comprehend the client's specific line of activity, including their internal accounting and control processes, as well as the dynamics of their industry. This knowledge is essential for designing and proposing a truly effective and customized cash management solution.

Oct/Nov 2011

29. Why can't bankers always work with a standard solution when providing cash management services?

(A) Because standard solutions are always more expensive for the bank to implement.
(B) Because regulatory guidelines prohibit the use of standard solutions for corporate clients.
(C) Because customers do not pose standard problems and have unique requirements.
(D) Because standard solutions are not compatible with the bank's core banking system.

Ans :

(C) Because customers do not pose standard problems and have unique requirements.
Each corporate client has unique business processes, operational structures, and financial challenges. A one-size-fits-all approach is ineffective because customers do not present

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(C) Direct Credit by Funds Transfer
(D) Cheque/DD Drawing Arrangement

Ans :

(C) Direct Credit by Funds Transfer
The Direct Credit by Funds Transfer service is designed for managing a company's outgoing payments (payables). It facilitates various disbursements, including payments to suppliers in the supply chain, employee salaries, and statutory payments. This service streamlines the payment process, making it more efficient and secure compared to traditional methods like issuing individual cheques for each payment.

May/June 2016

22. What are the key benefits provided to customers through a bank's customised Cash Collection Service?
(A) Increased interest rates on deposits, longer credit periods, and preferential loan terms
(B) Minimisation of operational risk, reduction in cost, security, and increased efficiency
(C) Access to international markets, currency trading platforms, and hedging instruments
(D) Automatic generation of financial statements, tax filings, and regulatory compliance reports

Ans :

(B) Minimisation of operational risk, reduction in cost, security, and increased efficiency
A bank's cash collection service is designed to streamline the process of collecting payments for a corporate client. The primary benefits for the customer include minimizing the operational risks associated with handling cash, reducing costs, enhancing security through professional handling, and increasing overall efficiency by accelerating the collection and deposit of funds into their account.

Oct/Nov 2006

23. What is the primary purpose of the NEFT Payment Electronic Channels service offered by banks as part of CMS?
(A) To facilitate single high-value transactions for corporate treasuries
(B) To manage overseas remittances exclusively
(C) To provide real-time clearing of local cheques
(D) To facilitate bulk disbursements for credit to various beneficiaries across the country

Ans :

(D) To facilitate bulk disbursements for credit to various beneficiaries across the country
The NEFT Payment Electronic Channels service is specifically designed for making multiple payments in a single batch. Its main purpose is to facilitate bulk disbursements, such as salary payments, vendor payments, or pension credits, to a large number of beneficiaries who have accounts in various bank branches located anywhere across the country, making it highly efficient.

May/June 2021

24. Which CMS product offered by banks involves the pooling of funds at desired locations?
(A) Auto-Sweeping Facility
(B) Receivables Management
(C) Cheque/DD Drawing Arrangement
(D) Direct Credit by Funds Transfer

Ans :

(A) Auto-Sweeping Facility
The Auto-Sweeping Facility is a cash management product that automates the process of fund concentration. It involves setting rules to automatically transfer or 'sweep' funds from multiple collection accounts into a central or main account. This pooling of funds at a desired location helps companies optimize their liquidity and manage their cash balances more effectively.

Oct/Nov 2022

25. Match the CMS product in List-I with its primary function in List-II.
List-I (Product)
P. Cheque/DD Drawing Arrangement
Q. Receivables Management
R. NACH payment facility
S. Direct Credit by Funds Transfer
List-II (Function)
1. For periodical disbursements or receipts
2. Management of payables like salary payments
3. Local and upcountry clearing solutions
4. Offered on pre-funding or post-funding basis for clients to issue instruments
(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-1, S-4

Ans :

(A) P-4, Q-3, R-1, S-2

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(B) National Automated Clearing House (NACH) system
(C) CTS-based nationwide Grid Clearing
(D) Securities Services System (SSS)

Ans :

(C) CTS-based nationwide Grid Clearing
The Reserve Bank of India's initiative to implement the Cheque Truncation System (CTS) and subsequently a CTS-based nationwide Grid Clearing system was a significant step. This system allows for the clearing of cheques on a national scale, irrespective of the drawee bank's location, thereby speeding up the cheque clearing cycle and improving the efficiency of payment processing.

May/June 2019

10. Good cash management for a corporate entity is described as a conscious process of knowing three key things. Which of the following is NOT one of them?
(A) The credit rating of its primary competitors
(B) When, where, and how a company's cash needs will occur
(C) The best sources for meeting additional cash needs
(D) Being prepared to meet cash needs by keeping good relationships with bankers

Ans :

(A) The credit rating of its primary competitors
Good cash management involves a forward-looking and prepared approach. This includes understanding the timing, location, and nature of future cash requirements; identifying the best funding sources like banks or creditors; and maintaining strong relationships with these financial partners. A competitor's credit rating is part of competitive analysis, not a direct component of internal cash management processes.

Oct/Nov 2016

11. Which of the following is a direct result of implementing scientific cash management in a corporate?
(A) Increased need for manual paperwork and reconciliation
(B) Increase in interest costs due to higher cash balances
(C) A reduction in the number of strategic business units
(D) Significant savings in time and greater accounting accuracy

Ans :

(D) Significant savings in time and greater accounting accuracy
Scientific cash management introduces efficiency and precision into financial operations. This leads to tangible benefits such as significant time savings through automation and streamlined processes, a decrease in interest costs by optimizing cash balances, reduced paperwork, and enhanced accounting accuracy due to electronic reconciliation and better information systems, ultimately improving overall productivity.

May/June 2011

12. A proper cash management system provides several benefits to a corporate. Which statement among the following is incorrect regarding these benefits?
(A) It reduces the number of cheques issued and supports electronic payments.
(B) It mandates an increase in surplus cash reserves held in non-interest-bearing accounts.
(C) It allows for the detection of bookkeeping errors and produces faster electronic reconciliation.
(D) It creates more control over time and funds and provides timely access to information.

Ans :

(B) It mandates an increase in surplus cash reserves held in non-interest-bearing accounts.
A proper cash management system aims to minimize idle, non-productive cash. It enables a corporate to either earn interest income on surplus funds or use them to reduce interest expenses on borrowings. Therefore, mandating an increase in cash held in non-interest-bearing accounts is contrary to the fundamental objective of optimizing liquidity and maximizing returns on cash assets.

Oct/Nov 2024

13. How can creative and pro-active cash management solutions transform a company's treasury function?
(A) By converting it into a cost-minimization center focused exclusively on controlling operational expenses

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standard, uniform problems. Therefore, bankers must be prepared to develop customized solutions and provide advisory services that address the specific, and often complex, needs of each individual company.

May/June 2010

30. Consider the following challenge for banks offering CMS: "Decisions regarding sourcing of software: Software applications for on-line banking and on-line cash management can be: i) built in-house ii) bought from independent software vendors and iii) outsourced to a trusted third party." Which of the following is NOT an option for a bank regarding its CMS software?

(A) Developing the software using its own IT department.
(B) Licensing the software from a specialized financial technology company.
(C) Partnering with a third party to manage the software application.
(D) Using open-source software without any customization or support.

Ans :

(D) Using open-source software without any customization or support.
The text outlines three distinct strategies for sourcing software: building it in-house, buying it from a vendor, or outsourcing it to a third party. Using unsupported open-source software is not mentioned as a viable option, likely because corporate cash management requires high levels of security, reliability, and dedicated support, which are not guaranteed with such an approach.

Oct/Nov 2020

31. Why is special consideration for small and medium companies (SMEs) a significant challenge for banks in the Indian CMS market?

(A) Because the corporate sector in India is dominated by a multitude of SMEs who may find services inaccessible.
(B) Because SMEs are not legally permitted to use high-tech cash management services.
(C) Because SMEs typically have more complex cash management needs than large corporations.
(D) Because there is no technology available that can be scaled down for SME use.

Ans :

(A) Because the corporate sector in India is dominated by a multitude of SMEs who may find services inaccessible.
The Indian corporate landscape is characterized by a large number of small and medium companies. A key challenge for banks is to devise strategies that make their high-tech and often costly cash management services accessible and affordable for this significant market segment. Failing to do so means missing out on a vast potential client base.

May/June 2009

32. In developing cash management solutions, which groups within a corporate client's organization do banks typically need to work with?

(A) Only the Chief Executive Officer
(B) The corporate financial controllers, systems people, and sometimes marketing people
(C) The human resources and legal departments
(D) Only the external auditors of the company

Ans :

(B) The corporate financial controllers, systems people, and sometimes marketing people
Developing an effective CMS solution is a coordinating activity that requires collaboration with multiple stakeholders within the client's organization. Banks must work closely with the financial controllers and their staff who manage the funds, the systems people who manage the IT infrastructure, and sometimes even the marketing people, especially if the solution involves customer receivables.

Oct/Nov 2015

33. What are the two critical issues that banks must manage in the electronic transmission and retrieval of corporate treasury data?

(A) Speed and user interface design
(B) Security and risk management
(C) Data storage capacity and network bandwidth
(D) Regulatory reporting and compliance audits

Ans :

(B) Security and risk management
When dealing with the electronic transmission of sensitive information like corporate treasury data, security and trust are paramount. Corporations face significant losses from both internal and external fraud. Therefore, a critical challenge for banks is to ensure robust security measures are

(C) Auto-Sweeping Facility and Direct Credit by Funds Transfer
(D) Statutory Payments Management and Overseas Remittances

Ans :

(A) Cash Collection Service and Receivables Management
The company's problems are related to collections. The Cash Collection Service would address the high operational risks of handling physical cash from stores by providing secure pick-up solutions. The Receivables Management/Cheque Collections service would tackle the delays in fund consolidation by providing efficient local and upcountry clearing solutions for the cheques collected from various stores.

Oct/Nov 2010

43. A bank's success in cash management services is highly dependent on its ability to act as a strategic partner to its clients. This involves which of the following actions?
(A) Offering the lowest possible fees for all services
(B) Providing detailed reports on the bank's own financial performance
(C) Limiting interaction with the client to only the treasury department head
(D) Understanding the client's industry and using that knowledge to propose solutions

Ans :

(D) Understanding the client's industry and using that knowledge to propose solutions
Being a strategic partner goes beyond just providing a service. It requires the banker to invest time in learning about the client's industry and their specific business model. This deeper understanding allows the bank to move from being a simple service provider to a valued advisor who can proactively propose solutions that address the client's unique challenges and support their growth.

May/June 2024

44. An excerpt states: "Corporations with subsidiaries worldwide, can pool everything internationally so that the company can offset the debts with the surplus monies from various subsidiaries. The end result will transform treasury function as a profit-centre by optimising cash and putting it to good use." What does this concept of international pooling primarily enable a corporation to do?
(A) Increase its debt in all countries simultaneously
(B) Use surplus funds in one country to cover deficits in another, thus reducing borrowing costs
(C) Standardize accounting practices across all subsidiaries
(D) Invest all surplus funds in the subsidiary that is most profitable

Ans :

(B) Use surplus funds in one country to cover deficits in another, thus reducing borrowing costs
International pooling is a sophisticated cash concentration technique. It allows a multinational corporation to virtually or physically consolidate its cash balances from subsidiaries in different countries. This enables the company to use its own internal surplus funds from one entity to offset the borrowing needs of another, thereby minimizing external debt and reducing overall interest expenses.

Oct/Nov 2019

45. Which of the following correctly identifies a pair of services offered by Foreign Banks in India, as mentioned in the text?
(A) Agricultural Subsidies and Micro-Lending
(B) Public Provident Fund accounts and Senior Citizen Savings Schemes
(C) Liquidity Management Services and e-Commerce Solutions
(D) Domestic Money Orders and Postal Savings

Ans :

(C) Liquidity Management Services and e-Commerce Solutions
The text specifically lists a range of advanced services often provided by Foreign Banks operating in India, leveraging their global expertise. Among the options, Liquidity Management Services and e-Commerce Solutions are explicitly mentioned as part of their offerings, which also include Regional Treasury Management, Card Services, and Investment Solutions, catering to sophisticated corporate needs.

May/June 2008

46. A scientific cash management solution results in several benefits. Which option represents a combination of these benefits?

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Ans :

(B) Credit Default Swap (CDS)
The keywords listed are directly related to the concepts discussed within the chapter on cash management. Float mechanism, Electronic Data Interchange (EDI), and Auto-sweeping facility are all relevant terms. A Credit Default Swap (CDS) is a complex financial derivative used to hedge against credit risk and is not a component of operational cash management services.

Oct/Nov 2013

39. What does the keyword 'Float mechanism' refer to in the context of cash management?
(A) The process of investing surplus funds in floating-rate bonds
(B) A flexible credit line offered to corporate clients
(C) The physical transportation of cash between branches
(D) The time delay between when a cheque is written and when funds are deducted from the payer's account

Ans :

(D) The time delay between when a cheque is written and when funds are deducted from the payer's account
Float refers to the money in the banking system that is counted twice for a brief period due to delays in processing cheques. For a payer, it's the time between issuing a cheque and the fund debit. Cash management aims to minimize collection float (for receivers) and manage disbursement float (for payers) to optimize the use of funds.

May/June 2015

40. Assertion (A): Bankers cannot always provide a standard, pre-packaged cash management solution to their corporate clients.
Reason (R): Changing systems is a major initiative for companies, and different customers pose different, non-standard problems requiring tailored solutions.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true because a one-size-fits-all approach is ineffective in CMS. Reason (R) correctly explains why this is the case. Implementing or changing a cash management system has far-reaching implications for a company. Since each company has unique processes and challenges, they require customized solutions, making standard packages unsuitable for many situations.

Oct/Nov 2023

41. Identify the incorrect statement regarding the developments in Cash Management Systems (CMS).
(A) An upward trend in interest rates increased the opportunity cost of holding cash.
(B) Technological developments, like electronic funds transfer, have been a major driver of change.
(C) RBI has taken measures since the mid-eighties to strengthen the payments mechanism.
(D) The fundamental principles of cash management have remained unchanged due to stable technology.

Ans :

(D) The fundamental principles of cash management have remained unchanged due to stable technology.
This statement is incorrect because cash management has, in fact, changed significantly precisely due to technological developments, not stable technology. While the core goal of optimizing liquidity remains, the methods, speed, and efficiency have been revolutionized by systems like NEFT, RTGS, and CTS, which are all products of a rapidly evolving technological landscape.

May/June 2020

42. A large retail chain collects cash and cheques from hundreds of stores across India. The company's treasury department struggles with delays in fund consolidation and high operational risks. Which two CMS products offered by banks would be most appropriate to address these specific problems?
(A) Cash Collection Service and Receivables Management
(B) NEFT Payment Channels and Cheque/DD Drawing Arrangement

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in place to manage these risks and protect client data from unauthorized access or breaches.

May/June 2013

34. Besides security, what other factor is highlighted as a major challenge in making the Internet a reliable business system for cash management?
(A) Operational reliability
(B) Global accessibility
(C) Low cost of access
(D) Simplicity of use

Ans :

(A) Operational reliability
While security is a primary concern, operational reliability is equally important for a business-critical function like cash management. The challenge lies in ensuring that the Internet-based systems are consistently available and that communications are not only secure but are also delivered on time without failure. Unreliable systems can disrupt business operations and lead to financial losses.

Oct/Nov 2008

35. According to the 'Let Us Sum Up' section, what does good cash management require from a company?
(A) Maintaining the maximum possible cash balance at all times
(B) Outsourcing the entire treasury function to a bank
(C) Meeting the company's future cash needs from future cash sources
(D) Investing all surplus cash in long-term, high-risk assets

Ans :

(C) Meeting the company's future cash needs from future cash sources
The summary emphasizes that a core principle of good cash management is foresight and planning. It requires a company to accurately forecast its future cash requirements and identify the future cash sources, such as sales revenues or credit lines, that will be used to meet those needs, ensuring a continuous and smooth flow of funds.

May/June 2006

36. What has been the impact of deregulation, new technology, and RBI initiatives on banks in India regarding CMS?
(A) They have forced banks to exit the cash management services business.
(B) They have restricted banks to offering only basic collection services.
(C) They have made cash management services unprofitable for most Indian banks.
(D) They have enabled banks to evolve and offer wide-ranging cash management services.

Ans :

(D) They have enabled banks to evolve and offer wide-ranging cash management services.
The combination of a changing regulatory environment (deregulation), technological advancements, and proactive payment system initiatives by the RBI has created a fertile ground for innovation in banking. These factors have enabled banks in India to develop, evolve, and offer a comprehensive and sophisticated range of cash management services to their corporate clients, moving beyond traditional banking.

Oct/Nov 2017

37. Given the focus of businesses on reducing finance costs, what is required of cash management services?
(A) To be offered free of charge to all corporate customers
(B) To focus only on automating existing manual processes
(C) To devise innovative methods to improve efficiency for the corporate customer
(D) To be standardized globally with no room for customization

Ans :

(C) To devise innovative methods to improve efficiency for the corporate customer
As businesses are constantly seeking ways to cut finance costs, they expect more from their banking partners. Cash management services must therefore be innovative and continuously evolve. The goal is to find new methods and means to improve the efficiency of cash management for the corporate customer, thereby helping them reduce costs and optimize their finances.

May/June 2023

38. Which of the following is NOT listed as a keyword related to cash management services?
(A) Float mechanism
(B) Credit Default Swap (CDS)
(C) Electronic Data Interchange (EDI)
(D) Auto-sweeping facility

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(A) Increased paperwork, higher interest income, and faster employee payments
(B) Reduced number of cheques, less control over funds, and slower reconciliation
(C) Greater accounting accuracy, increased need for manual intervention, and time savings
(D) Significant saving in time, decrease in interest cost, and greater accounting accuracy

Ans :

(D) Significant saving in time, decrease in interest cost, and greater accounting accuracy
The text clearly states that scientific cash management brings multiple efficiencies. These include significant time savings from automation, a decrease in net interest costs by optimizing cash balances, and greater accounting accuracy through electronic records and reconciliation. This combination of benefits directly contributes to improved financial performance and operational control for the corporation.

Oct/Nov 2005

47. A mid-sized software company wants to implement an online cash management solution. The CEO is unsure whether to develop the software internally, buy a ready-made package, or outsource the service. This situation represents which key challenge for a bank advising the company?
(A) Decisions regarding sourcing of software
(B) The need to comprehend the client's line of activity
(C) Special consideration to small and medium companies
(D) The need for a coordinating activity

Ans :

(A) Decisions regarding sourcing of software
The company's dilemma directly corresponds to the challenge listed as "Decisions regarding sourcing of software". The bank, acting as an advisor, would need to help the client evaluate the pros and cons of the three options: building in-house, buying from a vendor, or outsourcing to a trusted third party, based on the client's specific needs, budget, and technical capabilities.

May/June 2017

48. Consider the following statements about the importance of cash management for a bank:
1. It helps generate stable, non-interest income.
2. It weakens the relationship with corporate clients due to high fees.
3. It is a response to eroded comparative advantages from deregulation and technology.

Which of the statements is/are correct?
(A) 1 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 3 only
Statement 1 is correct as fee-based services like CMS provide stable, non-interest income. Statement 3 is also correct; banks shifted to these services as deregulation and technology increased competition. However, Statement 2 is incorrect. Offering valuable CMS solutions actually leads to a stronger, not weaker, long-term relationship with the corporate client.

Oct/Nov 2012

49. Which of the following is an example of a bank's CMS product designed for managing receivables?
(A) Salary payments service
(B) Local and upcountry cheque clearing solutions
(C) Statutory payments service
(D) Auto-sweeping of funds to a single account

Ans :

(B) Local and upcountry cheque clearing solutions
Managing receivables involves the collection of funds owed to the company. A CMS product that offers local and upcountry cheque clearing solutions directly addresses this need. It helps the company accelerate the collection and crediting of funds from cheques received from its customers, thereby improving its cash flow and reducing the associated float.

May/June 2005

50. What is the primary function of the Centralized Funds Management System (CFMS) introduced by the RBI?
(A) To facilitate efficient funds management for banks by enabling fund transfers across their accounts at the RBI
(B) To manage the retail payments of individual customers

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Based on this, what does 'payment in accordance with the apparent tenor' imply?
(A) Paying the amount only after verifying the drawer's identity.
(B) Paying the instrument only if it is presented by the original payee.
(C) Paying the instrument as per the instructions visible on its face, such as date, payee, and amount.
(D) Paying the instrument only after a thorough background check of the presenter.

Ans :

(C) Paying the instrument as per the instructions visible on its face, such as date, payee, and amount.
'Apparent tenor' refers to what is evident from a plain reading of the instrument itself. It encompasses the drawer's instructions as they appear on the face of the cheque. This includes critical details like the date, the name of the payee, whether it's a bearer or order instrument, the amount, and any crossing, which collectively guide the banker's payment action.

May/June 2011

22. A bank credits a cheque to an account where the account number on the deposit slip is wrongly stated, but the name is correct, without proper verification. This action would be considered:
(A) Payment in good faith.
(B) An act of negligence, for which protection may not be available.
(C) A standard banking practice covered under apparent tenor.
(D) An error for which only the depositor is responsible.

Ans :

(B) An act of negligence, for which protection may not be available.
Payment in due course requires acting not only in good faith but also without negligence. Crediting an account based on a mismatched account number, even if the name is correct, without further verification constitutes negligence. The bank has a duty to exercise reasonable care, and failing to do so can result in the loss of statutory protection.

Oct/Nov 2014

23. Under which of the following circumstances are funds in a customer's account, though sufficient, considered NOT properly applicable for honouring a cheque?
(A) When the cheque is presented one day after its date of issue.
(B) When the account balance is slightly more than the cheque amount.
(C) When the drawer has a loan with the same bank.
(D) When the funds have been attached under a garnishee order.

Ans :

(D) When the funds have been attached under a garnishee order.
Even if an account has a sufficient credit balance, the funds are not considered 'properly applicable' for paying a cheque if there is a legal restraint. A garnishee order from a court attaches the funds in the account, legally prohibiting the bank from paying them out to the account holder or on their cheques, until the court order is satisfied.

May/June 2017

24. A paying banker gets protection under Section 85(1) of the NI Act for paying an order cheque with a forged endorsement, provided that:
(A) The payment is made in due course and the endorsement appears regular.
(B) The forgery was done by the original payee.
(C) The banker personally knows the endorser.
(D) The amount of the cheque is below a certain threshold.

Ans :

(A) The payment is made in due course and the endorsement appears regular.
Section 85(1) protects a paying banker who makes a payment in due course on an order cheque. If the payee's endorsement is forged, the banker is still discharged from liability, provided the endorsement appears to be regular on the face of it. The banker is not expected to be an expert on the signatures of non-customers.

Oct/Nov 2019

25. What protection does Section 85(2) of the NI Act offer to a paying banker regarding a bearer cheque?
(A) Protection if the drawer's signature is forged.

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May/June 2011

54. Consider the following statements regarding the benefits of a proper cash management system for a corporate:

1. It enables easy employee-related payments.
2. It increases the number of cheques that need to be issued for control purposes.
3. It can help the company earn interest income or reduce interest expense.

Which of the above statements are correct?

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(C) 1 and 3 only
Statement 1 is correct as CMS facilitates bulk payments like salaries. Statement 3 is also correct because optimizing cash allows for investment of surplus or reduction of debt. Statement 2 is incorrect; a key benefit of a proper CMS is that it supports electronic payments and thereby reduces, not increases, the number of physical cheques issued.

Oct/Nov 2024

55. What does Electronic Data Interchange (EDI) facilitate in the context of cash management?

(A) The secure physical storage of paper-based financial documents
(B) The process of converting digital records back into physical paper format for auditing
(C) A video conferencing tool for meetings between bankers and corporate clients
(D) The computer-to-computer exchange of business documents in a standard electronic format

Ans :

(D) The computer-to-computer exchange of business documents in a standard electronic format
Electronic Data Interchange (EDI) is a technology that allows trading partners to exchange business documents, such as purchase orders and invoices, directly between their computer systems using a standardized format. In cash management, it can be integrated with payment systems to automate the reconciliation of payments with invoices, greatly improving efficiency and accuracy.

May/June 2014

56. The provision of 'Payable at par' cheques by a bank's CMS client is part of which specific service?

(A) Cheque/DD Drawing Arrangement
(B) Auto-Sweeping Facility
(C) Cash Collection Service
(D) NEFT Payment Electronic Channels

Ans :

(A) Cheque/DD Drawing Arrangement
The Cheque/DD Drawing Arrangement service allows corporate clients to issue their own payment instruments, such as Demand Drafts or 'Payable at par' cheques. These cheques can be presented for payment at any branch of the bank across the country, providing a convenient and widely accepted payment method for the client's vendors and beneficiaries.

Oct/Nov 2009

57. The fading of the conventional formal line between treasury and control, and between cash and accounting strategies, implies that:

(A) The treasury department is now solely responsible for all accounting functions.
(B) Accounting strategies no longer have any impact on a company's cash position.
(C) Bankers and controllers must now work together to find solutions for complex cash management functions.
(D) Banks are no longer involved in the strategic aspects of cash management.

Ans :

(C) Bankers and controllers must now work together to find solutions for complex cash management functions.
The blurring of these traditional lines signifies a more integrated approach to financial management. It means that cash management is no longer a siloed function. To create effective solutions, bankers (external partners) and corporate controllers (internal managers of finance and accounting) must collaborate closely, combining their expertise to address the complex, interconnected challenges of modern treasury operations.

May/June 2022

58. The text mentions several RBI initiatives that "transformed the earlier systems into a state-of-the-art payment infrastructure in India." These

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(C) To track and report all foreign exchange transactions
(D) To provide a platform for trading government securities

Ans :

(A) To facilitate efficient funds management for banks by enabling fund transfers across their accounts at the RBI
The Centralized Funds Management System (CFMS) is a key RBI initiative designed for banks themselves. It allows them to efficiently manage their funds by transferring money between their various accounts maintained with the Reserve Bank of India. This helps banks optimize their liquidity, meet reserve requirements, and manage their payment obligations in real-time.

Oct/Nov 2021

51. A paragraph states: "The key differentiator between a successful bank and another bank is the stress it lays on technology. Certain challenges bankers need to address in cash management services are: 1. Need to comprehend the client's line of activity... 2. Provision of other advisory services... 3. Decisions regarding sourcing of software..." Based on this, what is the relationship between technology and the challenges listed?
(A) Technology eliminates the need for bankers to address these challenges.
(B) The challenges listed are primarily non-technological and relate to client relationships.
(C) Technology is the foundation, but successfully deploying it requires addressing these strategic and advisory challenges.
(D) The main challenge is choosing a technology, after which no other issues remain.

Ans :

(C) Technology is the foundation, but successfully deploying it requires addressing these strategic and advisory challenges.
The text posits technology as the "key differentiator," making it foundational. However, it immediately lists challenges that are strategic and client-focused, such as understanding the business, providing advice, and making software decisions. This implies that merely having the technology is not enough; its successful application depends on bankers skillfully navigating these complex, consultative challenges.

May/June 2019

52. Which statement best describes the role of the National Automated Clearing House (NACH) system in cash management?
(A) It is used for high-value, individual inter-bank fund transfers only.
(B) It is a system for the physical clearing of cheques between major cities.
(C) It is a messaging system for confirming international trade finance transactions.
(D) It facilitates periodical and bulk disbursements or receipts, like dividends or utility bills.

Ans :

(D) It facilitates periodical and bulk disbursements or receipts, like dividends or utility bills.
The National Automated Clearing House (NACH) system is designed to handle high-volume, repetitive transactions. Its primary role in cash management is to provide a centralized and efficient platform for corporates and banks to manage periodical disbursements (like salaries, pensions, dividends) and receipts (like loan EMIs, insurance premiums, utility bills).

Oct/Nov 2016

53. Identify the incorrect pair from the following CMS initiatives and their descriptions.
(A) MICR: Use of special ink for automated processing of cheques
(B) RTGS: Settles transactions in real-time on a gross basis
(C) CTS: Physical movement of cheques for clearing
(D) NEFT: Operates in hourly batches for electronic fund transfers

Ans :

(C) CTS: Physical movement of cheques for clearing
The Cheque Truncation System (CTS) is specifically designed to stop the physical movement of cheques. Instead of transporting the paper cheque, an electronic image is transmitted for clearing. Therefore, the pairing of CTS with the physical movement of cheques is incorrect, as its very purpose is to eliminate that process and expedite clearing.

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CHAPTER 12

Payment and Collection of Cheques and Other Negotiable Instruments

Oct/Nov 2017

1. According to the Negotiable Instruments Act, 1881, which of the following are the three specified types of negotiable instruments?

(A) Cheques, Demand Drafts, and Pay Orders

(B) Promissory Notes, Bills of Exchange, and Cheques

(C) Bills of Exchange, Letters of Credit, and Bank Guarantees

(D) Promissory Notes, Treasury Bills, and Commercial Papers

Ans :

(B) Promissory Notes, Bills of Exchange, and Cheques

The Negotiable Instruments Act, 1881, primarily deals with three specific kinds of instruments that are widely utilized in commercial transactions. These are promissory notes, bills of exchange, and cheques. These instruments are collectively referred to as negotiable instruments, and the Act provides the legal framework for their use, negotiation, payment, and dishonour in banking and commerce.

May/June 2009

2. As per Section 6 of the Negotiable Instruments Act, 1881, a cheque is a specific type of which instrument?

(A) Bill of exchange drawn on a specified banker payable on demand

(B) Promissory note drawn on a specified banker payable on demand

(C) Unconditional undertaking to pay a certain sum of money

(D) Conditional order to pay a certain sum of money after a specific period

Ans :

(A) Bill of exchange drawn on a specified banker payable on demand

Section 6 of the NI Act, 1881, defines a cheque as a bill of exchange that is drawn on a specified banker and is not expressed to be payable otherwise than on demand. The definition also includes the electronic image of a truncated cheque and a cheque in electronic form, adapting the traditional instrument to modern banking practices.

Oct/Nov 2023

3. What is a 'truncated cheque' as defined in the context of the Negotiable Instruments Act, 1881?

(A) A cheque that has been physically cancelled by the drawer before issuance.

(B) A cheque that is valid for a shorter period, specifically less than three months.

(C) A cheque which is truncated during a clearing cycle for generating an electronic image for transmission.

(D) A cheque where the amount in words and figures is intentionally left blank.

Ans :

(C) A cheque which is truncated during a clearing cycle for generating an electronic image for transmission.

A truncated cheque is a physical paper cheque that is converted into an electronic image during the course of a clearing cycle. This truncation, done either by the clearing house or a bank, facilitates faster processing by transmitting the image electronically, thereby substituting the further physical movement of the paper instrument for payment or collection purposes.

May/June 2021

4. Which of the following statements correctly defines a 'Promissory Note' under Section 4 of the Negotiable Instruments Act, 1881?

(A) An instrument in writing containing a conditional undertaking to pay a certain sum of money.

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include MICR, NEFT, RTGS, DvP, INFINET, CTS, NACH, and UPI. Which inference can be drawn about the RBI's approach?

(A) The RBI has focused only on high-value corporate transactions.
(B) The RBI's approach has been multi-faceted, addressing different aspects of the payment ecosystem.
(C) The RBI has prioritized international payment systems over domestic ones.
(D) The RBI has discouraged the use of technology in banking.

Ans :

(B) The RBI's approach has been multi-faceted, addressing different aspects of the payment ecosystem.
The diverse list of initiatives demonstrates a comprehensive strategy. MICR and CTS improved cheque clearing, NEFT and UPI revolutionized retail electronic payments, RTGS handles high-value transactions, and systems like INFINET provide the network backbone. This shows a multi-faceted approach by the RBI to modernize and strengthen various components of the entire payments landscape in India.

Oct/Nov 2018

59. Which of the following statements correctly describe the challenges in providing CMS?

1. Bankers must understand the client's specific business activities.
2. Banks can always use a standard, one-size-fits-all solution.
3. Security against fraud is a critical issue in electronic transmission of data.
4. Special consideration for making services accessible to SMEs is required in India.

(A) 1, 2, and 3 only
(B) 1, 3, and 4 only
(C) 2, 3, and 4 only
(D) 1, 2, 3, and 4

Ans :

(B) 1, 3, and 4 only
Statements 1, 3, and 4 accurately reflect the challenges discussed. Bankers need deep client understanding (1), security is a major concern (3), and catering to the large SME sector is vital (4). Statement 2 is incorrect; the text explicitly states that bankers cannot always use a standard solution because customers pose non-standard problems.

May/June 2007

60. Match the banking concept from List-I with its correct description in List-II.

List-I (Concept)
P. Fee-Based Service
Q. Opportunity Cost
R. Concentration of Cash
S. Disbursement of Cash

List-II (Description)
1. The potential income lost from holding non-interest-bearing cash
2. The process of making payments to vendors, employees, etc.
3. A service, like CMS, for which a bank earns non-interest income
4. The process of pooling funds from multiple accounts into a central account

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-3, Q-1, R-4, S-2
The correct matching is as follows: A Fee-Based Service (P) is one that generates non-interest income for the bank (3). Opportunity Cost (Q) in this context is the lost income from holding idle cash (1). Concentration of Cash (R) is the pooling of funds into a central account (4). Disbursement of Cash (S) is the process of making payments (2).

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(D) The person to whom the instrument is directed to be paid (the drawee).

Ans :

(A) Any person entitled in his own name to its possession and to receive or recover the amount due.
The 'Holder' is the person legally entitled in their own name to possess the instrument and to receive or recover the payment specified therein from the parties liable. In the event that an instrument is lost or destroyed, the holder is the person who was so entitled at the time of the loss or destruction, retaining their legal rights.

Oct/Nov 2024

9. What distinguishes a 'Holder in Due Course' from a 'Holder'?
(A) A Holder in Due Course must be the original payee of the instrument.
(B) A Holder in Due Course receives the instrument after its maturity date.
(C) A Holder in Due Course acquires the instrument for consideration and without notice of any defect in the transferor's title.
(D) A Holder in Due Course is a person who finds a lost instrument and presents it for payment.

Ans :

(C) A Holder in Due Course acquires the instrument for consideration and without notice of any defect in the transferor's title.
A Holder in Due Course is a holder who takes possession of a negotiable instrument for valuable consideration before it is overdue and in good faith. Crucially, at the time of becoming the possessor, they must have no sufficient cause to believe that any defect existed in the title of the person from whom they derived their own title.

May/June 2005

10. The process of transferring a promissory note, bill of exchange, or cheque to another person to make that person the holder thereof is known as:
(A) Negotiation
(B) Assignment
(C) Endorsement
(D) Truncation

Ans :

(A) Negotiation
Negotiation is the legal term for the transfer of a negotiable instrument from one person to another in such a manner as to constitute the transferee the holder of the instrument. This transfer of title allows the new holder to demand payment or to further transfer the instrument. The specific method of negotiation depends on the type of instrument.

Oct/Nov 2012

11. In the context of a Core Banking System (CBS), where can a cheque be presented for payment?
(A) Only at the specific branch where the drawer's account is maintained.
(B) Only at the main branch of the bank in the city.
(C) At any bank branch, regardless of which bank it is.
(D) At any branch of the same bank.

Ans :

(D) At any branch of the same bank.
While a cheque is traditionally presented at the branch where the account is maintained, the implementation of core banking systems has enabled 'anywhere banking'. This allows a customer's cheque to be presented for payment at any branch of the drawee bank, as all branches can access the customer's account information and process the transaction centrally, subject to the bank's internal policies.

May/June 2024

12. A cheque presented for payment is considered 'stale' and cannot be paid if it is dated:
(A) More than one month prior to the date of presentation.
(B) Three months or more prior to the date of presentation.
(C) More than six months prior to the date of presentation.
(D) On a future date relative to the date of presentation.

Ans :

(B) Three months or more prior to the date of presentation.
A cheque has a validity period of three months from the date written on it. If a cheque is presented for payment three months or more after its date, it is considered a 'stale' cheque. Banks are not supposed to honour stale cheques,

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(B) An instrument in writing containing an unconditional order to pay a certain sum of money.
(C) A verbal promise made by one person to another to pay a certain sum of money on demand.
(D) An instrument in writing (not being a bank-note or currency-note) containing an unconditional undertaking to pay a certain sum of money.

Ans :

(D) An instrument in writing (not being a bank-note or currency-note) containing an unconditional undertaking to pay a certain sum of money.
Section 4 of the NI Act defines a promissory note as a written instrument, distinct from a bank-note or currency-note. It must contain an unconditional undertaking, signed by the maker, to pay a specific sum of money. The payment can be directed to a certain person, to their order, or to the bearer of the instrument.

Oct/Nov 2011

5. From the options below, identify the instrument that qualifies as a valid Promissory Note.
(A) "Mr. B, I O U Rs 1,000."
(B) "I promise to pay B Rs 500 and all other sums which shall be due to him."
(C) "I promise to pay B or order Rs 500."
(D) "I promise to pay B Rs 500 seven days after my marriage with C."

Ans :

(C) "I promise to pay B or order Rs 500."
A valid promissory note must contain an unconditional promise to pay a certain sum of money. The statement "I promise to pay B or order Rs 500" meets these criteria as it is an unconditional promise to pay a specific, certain amount. The other options are invalid because they are either mere acknowledgements of debt, conditional, or for an uncertain sum.

May/June 2015

6. Which of the following written instruments does NOT constitute a valid promissory note?
(A) "I acknowledge myself to be indebted to B in Rs 1,000, to be paid on demand, for value received."
(B) "I promise to pay B Rs 500 and to deliver to him my black horse on 1st January next."
(C) "I promise to pay B or order Rs 500."
(D) A signed instrument stating "I promise to pay B Rs 500."

Ans :

(B) "I promise to pay B Rs 500 and to deliver to him my black horse on 1st January next."
A promissory note must be an undertaking to pay a certain sum of money only. The instrument promising to pay Rs 500 and also deliver a black horse is not a valid promissory note because the promise is not exclusively for the payment of money. The inclusion of an obligation to deliver goods invalidates it as a negotiable instrument.

Oct/Nov 2006

7. According to Section 5 of the NI Act, 1881, a 'Bill of Exchange' is an instrument in writing containing a(n):
(A) Unconditional undertaking, signed by the maker, to pay a certain sum of money.
(B) Conditional order, signed by the maker, to pay a certain sum of money.
(C) Conditional undertaking, signed by the maker, directing a certain person to pay a certain sum of money.
(D) Unconditional order, signed by the maker, directing a certain person to pay a certain sum of money.

Ans :

(D) Unconditional order, signed by the maker, directing a certain person to pay a certain sum of money.
Section 5 defines a Bill of Exchange as a written instrument containing an unconditional order from the maker (drawer). This order directs a specific person (drawee) to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument. It is an order to pay, not a promise to pay.

May/June 2019

8. Who is defined as the 'Holder' of a promissory note, bill of exchange, or cheque?
(A) Any person entitled in his own name to its possession and to receive or recover the amount due.
(B) Any person who is in physical possession of the instrument.
(C) The person who originally created the instrument.

NODIA

Statement II: A material alteration, if not consented to by all parties, renders the instrument void.

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Ans :

(A) Both Statement I and Statement II are correct.
Section 87 states that a material alteration renders a negotiable instrument void against anyone who was a party at the time of alteration and did not consent. To be valid, any such alteration must be made to carry out the common intention of the original parties. In banking practice, this validation requires the drawer's full signature against the change.

May/June 2025

18. If a cheque is accidentally torn by the collecting banker, what action should be taken to ensure it can be paid?

(A) The collecting banker should put an endorsement 'Mutilation guaranteed' on the back of the cheque.
(B) The cheque must be returned to the drawer for a new one to be issued.
(C) The presenter must sign an affidavit confirming the accidental tear.
(D) The cheque becomes void and cannot be paid under any circumstances.

Ans :

(A) The collecting banker should put an endorsement 'Mutilation guaranteed' on the back of the cheque.
When a cheque is accidentally mutilated (torn) while in the possession of the collecting banker, the bank can take responsibility for the damage. By endorsing 'Mutilation guaranteed' on the reverse of the cheque, the collecting bank confirms the damage was accidental and assures the paying bank that the instrument is otherwise in order, allowing for its payment.

Oct/Nov 2009

19. Assertion (A): A paying banker is not protected if it pays a cheque where the drawer's signature is forged.

Reason (R): An instrument with a forged drawer's signature is a mere nullity and does not qualify as a cheque, as there is no mandate from the customer to pay.

(A) Both A and R are true, and R is the correct explanation of A.
(B) Both A and R are true, but R is not the correct explanation of A.
(C) A is true, but R is false.
(D) A is false, but R is true.

Ans :

(A) Both A and R are true, and R is the correct explanation of A.
The drawer's signature is the authority for the bank to debit the account. If the signature is forged, there is no valid mandate from the customer. The Supreme Court has held that such a document is a nullity. While Section 89 offers protection for forged endorsements, it does not extend to a forged drawer's signature, making the bank liable.

May/June 2016

20. In the case of a partnership account, who must give the instruction to cancel a previously issued stop payment order?

(A) Any one of the partners.
(B) The managing partner only.
(C) Any two of the authorized signatories.
(D) All the partners.

Ans :

(D) All the partners.
While a stop payment instruction on a cheque from a partnership account can typically be given by any of the joint account holders (partners), the cancellation of such an instruction is treated differently. To revoke a stop payment order and re-authorize the payment, consent from all partners is required to ensure a unified and binding decision.

Oct/Nov 2022

21. Read the following definition: 'Payment in due course means payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount there in mentioned.'

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and they will be returned unpaid to the presenter for being out of date.

Oct/Nov 2018

13. A customer presents a cheque dated 15th August at a bank counter on 1st August of the same year. What is the most appropriate action for the banker to take?

(A) Pay the cheque immediately as there are sufficient funds.
(B) Return the cheque with the reason 'stale cheque'.
(C) Return the cheque as it is post-dated and cannot be paid before its ostensible date.
(D) Contact the drawer to confirm if the payment can be made early.

Ans :

(C) Return the cheque as it is post-dated and cannot be paid before its ostensible date.
A cheque bearing a future date is a post-dated cheque. A bank cannot pay such a cheque before its stated date. This is because the drawer's mandate to pay only becomes effective on that date. Paying it early exposes the bank to risks like a stop-payment instruction, or notice of the drawer's death or insolvency, before the cheque's date.

May/June 2008

14. If a cheque is made payable to 'X only', who is entitled to receive the payment?

(A) X or his authorized agent.
(B) Any person who holds the cheque, as 'only' is not a legal restriction.
(C) The payment must be made to a limited company named X.
(D) Only X and no other person.

Ans :

(D) Only X and no other person.
When a cheque is drawn payable to a specific person with the restrictive word 'only', such as 'Pay X only', the bank's mandate is to pay that individual and no one else. This wording restricts the negotiability of the cheque, and it cannot be endorsed or transferred to another party for payment. The payment must be made strictly to X.

Oct/Nov 2007

15. When a bearer cheque is presented for payment, what is the paying banker's primary duty regarding endorsements?

(A) The banker need not verify any endorsement on the cheque.
(B) The banker must verify the regularity of all endorsements on the cheque.
(C) The banker must obtain an endorsement from the presenter.
(D) The banker must ensure the presenter's signature matches the last endorsement.

Ans :

(A) The banker need not verify any endorsement on the cheque.
A bearer cheque is payable to any person who presents it for payment. Its negotiation occurs by mere delivery, and endorsements are not necessary for transfer of title. Therefore, the paying banker is discharged by payment in due course to the bearer and is not required to verify any endorsements that may appear on the instrument.

May/June 2013

16. According to Section 18 of the NI Act, if the amount written on a cheque in words and figures differs, which amount should the bank pay?

(A) The amount stated in figures.
(B) The amount stated in words.
(C) The lower of the two amounts.
(D) The higher of the two amounts.

Ans :

(B) The amount stated in words.
Section 18 of the Negotiable Instruments Act, 1881, provides a clear rule for resolving discrepancies between the amount written in words and the amount written in figures. The Act specifies that the amount stated in words shall be the amount undertaken or ordered to be paid. In practice, however, banks often return such cheques unpaid.

Oct/Nov 2020

17. Consider the following statements regarding material alteration of a cheque under Section 87 of the NI Act:
Statement I: Any material alteration on a cheque must be authenticated by the drawer's full signature.

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(B) Protection only if all endorsements on the cheque are verified and genuine.
(C) Discharge from liability by payment in due course to the bearer, regardless of any endorsements.
(D) Discharge from liability only if the bearer is the original payee.

Ans :

(C) Discharge from liability by payment in due course to the bearer, regardless of any endorsements.
Section 85(2) states that a bearer cheque is negotiated by mere delivery. Therefore, a paying banker is discharged from liability by simply making payment in due course to the person presenting the cheque (the bearer). The presence of any endorsement, whether genuine, forged, or restrictive, is irrelevant, and the banker is not required to examine it.

May/June 2006

26. Under Section 89 of the NI Act, a banker is protected when paying a materially altered cheque if:
(A) The alteration is not apparent at the time of presentation and payment is made in due course.
(B) The alteration is authenticated by the payee.
(C) The drawer provides verbal confirmation of the alteration.
(D) The alteration was made to correct a spelling mistake in the payee's name.

Ans :

(A) The alteration is not apparent at the time of presentation and payment is made in due course.
Section 89 provides protection to a paying banker if a negotiable instrument has been materially altered but does not appear to have been so altered. If the banker pays such a cheque according to its apparent tenor at the time of payment and otherwise in due course, they are discharged from liability, as they could not detect the alteration.

Oct/Nov 2013

27. Under Cheque Truncation System (CTS), what is the rule regarding alterations or corrections on a cheque?
(A) Any number of alterations are permitted if validated by the drawer.
(B) Only the payee's name can be altered with the drawer's signature.
(C) Alterations to the amount in figures are allowed, but not the amount in words.
(D) No changes or corrections are permitted, except for date validation.

Ans :

(D) No changes or corrections are permitted, except for date validation.
To enhance security and prevent fraud under the Cheque Truncation System (CTS), strict rules are in place regarding alterations. No changes or corrections are allowed on the face of the cheque, including the payee's name or the amount. For any such change, a fresh cheque must be issued. The only exception is for alterations related to date validation.

May/June 2022

28. To receive protection under Section 128 of the NI Act when paying a generally crossed cheque, the drawee bank must make the payment to:
(A) The payee in cash across the counter.
(B) A banker.
(C) The true owner of the cheque.
(D) Any person who presents the cheque.

Ans :

(B) A banker.
Section 128 grants protection to the paying banker for a crossed cheque, provided the payment is made in due course and follows the mandate of the crossing. For a generally crossed cheque, the mandate requires that the payment must be made only to another banker, not directly to an individual or entity across the counter.

Oct/Nov 2005

29. According to Section 129 of the NI Act, what is the consequence if a banker pays a crossed cheque to a person other than a banker?
(A) The banker receives special protection for acting in good faith.
(B) The drawer becomes liable to the true owner of the cheque.
(C) The banker is liable to the true owner for any loss sustained due to such payment.
(D) The payment is considered valid, but the banker receives a penalty from RBI.

Ans :

(C) The banker is liable to the true owner for any loss sustained due to such payment.

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Oct/Nov 2011

47. A cheque is returned unpaid with the reason 'account closed'. Based on the case law G.Venkataramanaiah vs. Sillakollu Venkateswarlu (1999), does this constitute an offence under Section 138?

(A) Yes, an offence is committed even if a cheque is returned on account of closure of account.
(B) No, because the reason is not 'insufficient funds'.
(C) No, because closing the account is not an offence.
(D) Yes, but only if the account was closed after the cheque was issued.

Ans :

(A) Yes, an offence is committed even if a cheque is returned on account of closure of account.
The judiciary has interpreted Section 138 broadly. The Supreme Court has held that dishonour of a cheque due to 'account closed' is a valid ground for prosecution under Section 138. This is because closing the account is seen as an action by the drawer that results in the cheque being returned unpaid, which is equivalent to having insufficient funds.

May/June 2015

48. Based on the case law Sadanandan Bhadran vs. M. Sunil Kumar 1998 4 CLJ, what is the legal position if a payee presents a dishonoured cheque a second time but did not initiate prosecution on the first dishonour?

(A) The payee can initiate prosecution for the second dishonour as it gives a fresh cause of action.
(B) The payee cannot initiate prosecution for the second dishonour if they failed to do so on the earlier cause of action.
(C) The payee can choose to prosecute based on either the first or the second dishonour.
(D) The court will combine both causes of action into a single case.

Ans :

(B) The payee cannot initiate prosecution for the second dishonour if they failed to do so on the earlier cause of action.
The cited case law clarifies the principle of cause of action under Section 138. Once a cause of action arises from the first dishonour and the subsequent failure to pay after notice, the limitation period begins. Presenting the cheque again does not create a fresh cause of action if the payee had already let the initial opportunity to prosecute lapse.

Oct/Nov 2006

49. If an offence under Section 138 is committed by a company, who is generally held liable for the offence?

(A) Only the company as a legal entity.
(B) The company as well as every person responsible for the conduct of the company's business.
(C) Only the shareholders of the company.
(D) Only the director who signed the cheque.

Ans :

(B) The company as well as every person responsible for the conduct of the company's business.
Section 141 of the NI Act deals with offences by companies. It establishes the principle of vicarious liability. When a company commits an offence, not only is the company itself deemed guilty, but every person who, at the time the offence was committed, was in charge of and responsible to the company for its business conduct is also held liable.

May/June 2019

50. Which of the following statements regarding the legal proceedings for cheque dishonour is INCORRECT?

(A) Criminal liability for a dishonoured cheque can be fastened on the legal heirs of the deceased drawer.
(B) A cheque can be presented any number of times during its validity period.
(C) An offence is committed even if a cheque is returned due to account closure.
(D) A post-dated cheque is deemed to have been drawn on the date it bears for calculating its validity period.

Ans :

(A) Criminal liability for a dishonoured cheque can be fastened on the legal heirs of the deceased drawer.
Based on case law (Smt. Bhupindar Lima vs. State of Andhra Pradesh), criminal liability is personal and cannot be transferred. Therefore, in the event of the drawer's death, criminal liability for a dishonoured cheque cannot be fastened onto

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instrument a bearer one. An endorsement in full (Sec. 16) directs payment to a specific person. A conditional endorsement (Sec. 52) introduces a condition that must be met for the endorsee to receive payment.

May/June 2012

34. Identify the INCORRECTLY matched pair of endorsement type and its description.
(A) Conditional Endorsement : Makes the endorser's liability absolute and unconditional.
(B) Restrictive Endorsement : Restricts further negotiation of the instrument.
(C) Facultative Endorsement : Waives the endorsee's duty to give notice of dishonour.
(D) Endorsement in Blank : Consists of the mere signature of the endorser on the instrument.

Ans :

(A) Conditional Endorsement : Makes the endorser's liability absolute and unconditional.
A conditional endorsement does the opposite; it makes the endorsee's right to receive payment, or the endorser's liability, dependent upon the happening of a specified event. It introduces a condition rather than making liability absolute. The other pairs are correctly matched with their respective descriptions as per the provisions of the Negotiable Instruments Act.

Oct/Nov 2025

35. Match the type of endorsement in List-I with its example in List-II.
List-I (Type of Endorsement)
P. Endorsement in Full
Q. Restrictive Endorsement
R. Conditional Endorsement ('sans recourse')
S. Facultative Endorsement
List-II (Example)
1. "Pay to X, notice of dishonour waived"
2. "Pay to X without recourse to me"
3. "Pay to X or order"
4. "Pay to X only"
Code:
(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-2, R-4, S-1
(D) P-1, Q-4, R-2, S-3

Ans :

(A) P-3, Q-4, R-2, S-1
P-3: 'Pay to X or order' is an endorsement in full. Q-4: 'Pay to X only' is a restrictive endorsement as it prohibits further negotiation. R-2: 'Pay to X without recourse to me' is a conditional endorsement where the endorser excludes their own liability. S-1: 'Notice of dishonour waived' is a facultative endorsement.

May/June 2018

36. What is the legal implication of a 'sans recourse' endorsement?
(A) It increases the liability of the endorser.
(B) It restricts the endorsee from further negotiating the instrument.
(C) It makes the payment conditional upon a future event.
(D) It excludes the liability of the endorser in case the instrument is dishonoured.

Ans :

(D) It excludes the liability of the endorser in case the instrument is dishonoured.
'Sans recourse' is a French term meaning 'without recourse'. When an endorser adds these words to their endorsement, they are explicitly stating that they will not be liable to the endorsee or any subsequent holder if the instrument is dishonoured by the primary party (drawee or maker). It effectively passes title without incurring personal liability.

Oct/Nov 2010

37. An endorsement that states "Pay to Nalini Mumbaikar only" is an example of which type of endorsement under Section 50 of the NI Act?
(A) Facultative endorsement
(B) Conditional endorsement
(C) Restrictive endorsement
(D) Endorsement in full

Ans :

(C) Restrictive endorsement
As per Section 50, a restrictive endorsement is one that restricts or excludes the right to further negotiate the instrument. The phrase "Pay to Nalini Mumbaikar only" explicitly prohibits Nalini from endorsing the cheque to anyone else, thereby restricting its negotiability and making it a classic example of a restrictive endorsement.

May/June 2020

38. According to Section 123 of the NI Act, what constitutes a 'General Crossing' on a cheque?

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Section 129 specifies the liability for not adhering to the crossing mandate. If a paying banker makes payment on a crossed cheque other than to a banker (or the specified banker in a special crossing), they lose statutory protection. Consequently, the bank becomes liable to the true owner of the cheque for any loss they might suffer.

May/June 2010

30. A cheque is crossed specially to two different bankers (e.g., 'State Bank of India' and 'Punjab National Bank'). What should the paying banker do?

(A) Pay the banker who presents the cheque first.
(B) Pay the amount jointly to both banks.
(C) Pay either of the two bankers as per convenience.
(D) Return the cheque unpaid.

Ans :

(D) Return the cheque unpaid.
As per Section 127 of the NI Act, a cheque cannot be crossed specially to more than one banker. The only exception is when one banker is acting as an agent for collection for another banker. If a cheque presented for payment bears special crossings to two independent bankers, the paying banker must refuse payment and return it.

Oct/Nov 2015

31. Read the following text:
"The collecting banker is protected in this respect if the following conditions are fulfilled in collecting a cheque or draft (Sec.131): The cheque is collected for a customer. (KYC guidelines have been followed.) The cheque is crossed either generally or specially before it is received by the banker... The banker acts in good faith and without negligence."
Which condition is NOT available for protection if the banker itself crosses an uncrossed cheque?

(A) The cheque being crossed before it is received by the banker.
(B) Acting in good faith and without negligence.
(C) Collecting for a customer.
(D) Following KYC guidelines.

Ans :

(A) The cheque being crossed before it is received by the banker.
The protection under Section 131 is not available when the banker adds a crossing to an uncrossed cheque. One of the core conditions for a collecting bank to claim this statutory protection is that the cheque must have been already crossed (either generally or specially) before the bank received it for collection.

May/June 2023

32. What is an 'allonge' in the context of negotiable instruments?

(A) A separate document confirming the authenticity of a cheque.
(B) A slip of paper attached to a cheque or bill of exchange for the purpose of making further endorsements.
(C) The electronic image of a cheque used in truncation.
(D) A legal notice sent upon the dishonour of a cheque.

Ans :

(B) A slip of paper attached to a cheque or bill of exchange for the purpose of making further endorsements.
An endorsement is typically written on the back of a negotiable instrument. However, if there is no space left for further endorsements, a separate slip of paper, known as an 'allonge', can be annexed to the instrument. This attached paper then becomes a legal part of the instrument for recording subsequent endorsements and transfers of title.

Oct/Nov 2021

33. Consider the following statements about endorsements:

1. An 'Endorsement in blank' is the mere signature of the endorser, making the instrument payable to the bearer.
2. An 'Endorsement in full' specifies the person to whom the payment is to be made.
3. A 'Conditional endorsement' makes the endorsee's right to receive payment dependent on a specific event.

How many of the above statements are correct?

(A) Only one
(B) All three
(C) Only two
(D) None

Ans :

(B) All three
All three statements accurately describe different types of endorsements. An endorsement in blank (Sec. 16) involves only a signature, making the

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The Negotiable Instruments Act allows the holder of a cheque to modify its crossing to enhance its security. If a cheque is uncrossed, the holder can cross it generally or specially. If it is already crossed generally, the holder has the right to add the name of a bank, thereby converting it into a special crossing.

Oct/Nov 2017

43. What is the legal status of a transferee's title in the case of a forged instrument?

(A) The transferee gets a defective title but can pass on a better title to a holder in due course.
(B) The transferee's title is valid if they acquired the instrument in good faith and for value.
(C) The transferee's title is valid only against the party who committed the forgery.
(D) The transferee gets no title at all, as forgery gives no title.

Ans :

(D) The transferee gets no title at all, as forgery gives no title.
The fundamental rule regarding forgery is that it is a nullity and cannot confer any legal title. Therefore, in the case of a forged instrument, a person who takes it (the transferee) acquires no rights or title to it. Even a holder in due course does not get a valid title, as the instrument is void from the beginning.

May/June 2009

44. With the introduction of CTS-GRID based clearing, which of the following has emerged as a new reason for cheque dishonour?

(A) Insufficient funds
(B) Digital certification validation failure
(C) Payment stopped by drawer
(D) Exceeds arrangement

Ans :

(B) Digital certification validation failure
The Cheque Truncation System (CTS) relies on digital technologies for processing. Along with traditional reasons like insufficient funds, new technical reasons for dishonour have emerged. 'Digital certification validation failure' is one such reason, indicating a problem with the digital signature or security features of the electronic image of the cheque, preventing its processing through the grid.

Oct/Nov 2023

45. What is the correct chronological sequence of actions for the payee to initiate proceedings under Section 138 of the NI Act for a dishonoured cheque?

1. Drawer fails to make payment within 15 days of receiving the notice.
2. Cheque is presented to the bank within its validity period.
3. A demand notice is made to the drawer within 30 days of the cheque's return.

(A) 3, 2, 1
(B) 2, 1, 3
(C) 2, 3, 1
(D) 1, 3, 2

Ans :

(C) 2, 3, 1
To establish an offence under Section 138, a specific sequence of events must occur. First, the cheque must be presented for payment within its validity period (three months). Second, upon its dishonour, the payee must send a written demand notice to the drawer within 30 days. Third, the cause of action arises if the drawer fails to pay within 15 days of receiving this notice.

May/June 2021

46. An offence under Section 138 of the NI Act for dishonour of a cheque is punishable with imprisonment for a term up to:

(A) Six months or a fine up to the amount of the cheque.
(B) One year or a fine up to twice the amount of the cheque.
(C) Five years and a mandatory fine of twice the amount of the cheque.
(D) Two years or with a fine up to twice the amount of the cheque, or with both.

Ans :

(D) Two years or with a fine up to twice the amount of the cheque, or with both.
Section 138 prescribes a significant penalty for the dishonour of a cheque due to insufficient funds or exceeding arrangement. The drawer who commits such an offence is liable to be punished with imprisonment for a term which may extend to two years, or with a fine which may extend to twice the amount of the cheque, or with both.

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(A) Writing the name of a specific bank across the face of the cheque.
(B) Drawing two parallel transverse lines across the face of the cheque, with or without words like '& Company'.
(C) Writing 'Account Payee' between two parallel transverse lines.
(D) Writing 'Not Negotiable' on the back of the cheque.

Ans :

(B) Drawing two parallel transverse lines across the face of the cheque, with or without words like '& Company'.
Section 123 defines general crossing as the act of drawing two parallel lines across the face of a cheque. These lines may optionally contain words such as "& company" or "not negotiable". The primary effect of a general crossing is to mandate that the paying banker must pay the cheque only to another banker.

Oct/Nov 2008

39. As per Section 124 of the NI Act, a cheque is considered to be 'crossed specially' when:
(A) It bears two parallel lines with the words 'Not Negotiable'.
(B) It has the words 'Account Payee' written on it.
(C) It is payable only to the person named in the cheque.
(D) It bears across its face the name of a banker, in addition to the crossing.

Ans :

(D) It bears across its face the name of a banker, in addition to the crossing.
A special crossing, defined under Section 124, involves adding the name of a specific banker across the face of the cheque. This directs the paying banker to pay the cheque only to the banker whose name is mentioned in the crossing, or to their collecting agent. This provides a higher level of security than a general crossing.

May/June 2007

40. What is the primary effect of a 'Not Negotiable' crossing on a cheque as per Section 130 of the NI Act?
(A) The transferee cannot have a better title than what the transferor had.
(B) It makes the cheque completely non-transferable.
(C) It directs the payment to be made only in cash.
(D) It cancels the validity of the cheque.

Ans :

(A) The transferee cannot have a better title than what the transferor had.
A 'Not Negotiable' crossing does not prevent the transfer of a cheque, but it removes one of the key characteristics of negotiability. According to Section 130, a person taking a cheque with this crossing cannot acquire a better title to it than the person from whom they took it, thus protecting the true owner against theft or fraud.

Oct/Nov 2016

41. A collecting bank receives a cheque with an 'Account Payee' crossing for a customer. The customer requests the bank to credit the proceeds to his friend's account, also held at the same bank. What should the bank do?
(A) Accede to the request as the friend is also a customer of the bank.
(B) Return the cheque to the customer as the request is irregular.
(C) Credit the proceeds only to the account of the named payee on the cheque.
(D) Credit the amount to a suspense account until the payee provides written consent.

Ans :

(C) Credit the proceeds only to the account of the named payee on the cheque.
An 'Account Payee' crossing is a direction to the collecting bank to collect the amount for the account of the payee named in the cheque. RBI has directed banks to strictly adhere to this mandate. Crediting the proceeds to any other account, even with the payee's consent, would be a violation of this direction and constitute negligence.

May/June 2014

42. If a cheque is crossed generally, who is permitted to cross it specially?
(A) The holder.
(B) The drawer only.
(C) The payee only.
(D) The paying banker.

Ans :

(A) The holder.

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their legal heirs or representatives. The other statements reflect established legal principles regarding cheque dishonour cases.

Oct/Nov 2024

51. In a summary trial for an offence under Section 138, what is the maximum sentence of imprisonment and fine a magistrate can pass according to Section 143 of the NI Act?
(A) Imprisonment up to six months and a fine up to ₹1,000.
(B) Imprisonment up to two years and a fine up to ₹10,000.
(C) Imprisonment up to one year and a fine up to ₹5,000.
(D) Imprisonment up to one year and a fine up to twice the cheque amount.

Ans :

(C) Imprisonment up to one year and a fine up to ₹5,000.
Section 143 allows for the summary trial of offences under Section 138 to expedite proceedings. However, it places a limit on the punishment that can be awarded in such a trial. A magistrate conducting a summary trial can pass a sentence of imprisonment for a term not exceeding one year and a fine not exceeding ₹5,000.

May/June 2005

52. Under Section 144 of the NI Act, a magistrate may direct a copy of the summons to an accused to be served by speed post or by:
(A) Registered post with acknowledgement due.
(B) Email or other electronic means.
(C) Publication in a local newspaper.
(D) Such courier services as are approved by a Court of Session.

Ans :

(D) Such courier services as are approved by a Court of Session.
Section 144 provides for efficient service of summons to expedite trials. It empowers the magistrate to issue summons not only through traditional means but also by directing a copy to be served via speed post or through courier services. The eligibility of these courier services is determined by their approval from a Court of Session.

Oct/Nov 2012

53. What legal presumption is established under Section 146 of the NI Act upon the production of a bank's slip or memo indicating cheque dishonour?
(A) It presumes the drawer had fraudulent intent.
(B) It presumes the cheque was materially altered.
(C) It presumes the fact of dishonour of the cheque, unless disproved.
(D) It presumes the signature on the cheque is genuine.

Ans :

(C) It presumes the fact of dishonour of the cheque, unless disproved.
Section 146 provides for a rule of evidence to streamline court proceedings. When the bank's return memo or slip, bearing the official mark denoting that the cheque has been dishonoured, is produced in court, the court shall presume the fact of dishonour. This presumption is rebuttable, meaning the accused has the right to prove otherwise.

May/June 2024

54. According to Section 147 of the Negotiable Instruments Act, what is the nature of every offence punishable under the Act?
(A) Non-bailable
(B) Compoundable
(C) Non-compoundable
(D) Cognizable

Ans :

(B) Compoundable
Section 147 explicitly states that every offence punishable under the Negotiable Instruments Act is compoundable. This means that the parties involved (the complainant and the accused) have the legal option to arrive at a compromise or settlement, which can then be accepted by the court, leading to the acquittal of the accused and termination of the proceedings.

Oct/Nov 2018

55. As per Section 148, when a drawer appeals against a conviction under Section 138, what is the minimum amount the appellate court can order the appellant to deposit?
(A) 10% of the cheque amount.
(B) 50% of the cheque amount.

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CHAPTER 13
Responsibility of Paying Bank

May/June 2013

1. Which section of the Negotiable Instruments Act, 1881, lays down the fundamental duty of a banker to honour a customer's cheque?
(A) Section 6
(B) Section 31
(C) Section 85
(D) Section 89

Ans :

(B) Section 31
Section 31 of the Negotiable Instruments Act, 1881, establishes the statutory obligation of the drawee of a cheque. It mandates that a bank must pay a customer's cheque when it is duly required to do so, provided there are sufficient, properly applicable funds in the customer's account. Failure to do so results in liability for the bank.

Oct/Nov 2010

2. The obligation of a paying banker under Section 31 of the Negotiable Instruments Act, 1881, is applicable to which of the following entities?
(A) A specified banker on whom a cheque is drawn
(B) Any person holding a bill of exchange
(C) The payee of any negotiable instrument
(D) Any financial institution holding a promissory note

Ans :

(A) A specified banker on whom a cheque is drawn
The duty prescribed under Section 31 is specific to bankers because Section 6 of the Negotiable Instruments Act defines a 'cheque' as a bill of exchange drawn on a specified banker. Therefore, the obligation to honour a cheque, given sufficient funds, rests exclusively with the bank named as the drawee on the instrument.

May/June 2005

3. Under Section 31 of the NI Act, for a paying bank's duty to honour a cheque to arise, which of the following conditions is NOT explicitly required?
(A) The bank must have sufficient funds of the drawer.
(B) The funds must be properly available for payment.
(C) The cheque must be presented during banking hours.
(D) The cheque must be duly required for payment.

Ans :

(C) The cheque must be presented during banking hours.
While presenting a cheque during banking hours is a standard banking practice, Section 31 specifically lists three core conditions: having sufficient funds, the funds being properly available, and the cheque being duly required for payment (i.e., properly drawn and signed). The term "duly required to do so" implicitly covers presentation norms, but it is not explicitly listed as a separate condition.

Oct/Nov 2022

4. If a bank wrongfully dishonours a customer's cheque, to whom is the bank primarily liable for compensation for loss or damage?
(A) The payee of the cheque
(B) The holder in due course
(C) Any endorsee of the cheque
(D) The drawer of the cheque

Ans :

(D) The drawer of the cheque
Section 31 of the Negotiable Instruments Act explicitly states that in case of wrongful dishonour, the bank must compensate the drawer for any loss or damage caused by such default. The liability is owed directly to the customer (the drawer) due to the breach of the contractual mandate, not to the payee or any other holder.

NODIA

Oct/Nov 2020

59. Match the Section of the NI Act in List-I with the subject matter it deals with in List-II.

List-I (Section)

P. Section 131

Q. Section 87

R. Section 123

S. Section 147

List-II (Subject Matter)

1. General Crossing
2. Protection to Collecting Banker
3. Offences to be Compoundable
4. Effect of Material Alteration

Code:

(A) P-4, Q-2, R-1, S-3

(B) P-2, Q-4, R-3, S-1

(C) P-2, Q-4, R-1, S-3

(D) P-1, Q-3, R-4, S-2

Ans :

(C) P-2, Q-4, R-1, S-3

P-2: Section 131 provides statutory protection to the collecting banker. Q-4: Section 87 outlines the legal consequences of materially altering a negotiable instrument. R-1: Section 123 defines what constitutes a general crossing on a cheque. S-3: Section 147 specifies that all offences under the Act are compoundable, allowing for settlement between parties.

May/June 2025

60. A cheque payable to 'Rajkumar or order' is stolen by a thief, who forges Rajkumar's signature as an endorsement and presents it for payment. The drawee bank, finding the endorsement seemingly regular, pays the cheque in due course. The true owner, Rajkumar, later sends a legal notice to the bank. What is the liability of the paying bank?

(A) The bank is liable as a forged endorsement confers no rights.

(B) The bank will get protection under Section 85(1) of the NI Act.

(C) The bank is liable under Section 131 of the NI Act for negligence.

(D) The bank is not liable as the cheque was an order instrument.

Ans :

(B) The bank will get protection under Section 85(1) of the NI Act.

This case involves a forged endorsement on an order cheque. Section 85(1) of the NI Act specifically protects the paying banker in such situations. Provided the payment is made in due course and the endorsement appears regular, the banker is discharged from liability, as they are not expected to be familiar with the signatures of all possible payees/endorsees.

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(C) 25% of the fine or compensation awarded by the trial court.
(D) 20% of the fine or compensation awarded by the trial court.

Ans :

(D) 20% of the fine or compensation awarded by the trial court.
Section 148 empowers the appellate court to provide interim relief to the complainant. In an appeal filed by the drawer against a conviction under Section 138, the court can direct the appellant (drawer) to deposit a sum which shall be a minimum of twenty percent of the fine or compensation that was awarded by the trial court.

May/June 2008

56. A cheque for ₹50,000 is dishonoured. The payee sends a valid notice, but the drawer does not pay. The payee does not file a case. Instead, he presents the cheque again within its validity period, and it is dishonoured a second time. Can the payee now initiate prosecution?
(A) Yes, the second dishonour and subsequent notice gives rise to a fresh cause of action.
(B) No, because he lost his right by not prosecuting after the first dishonour.
(C) No, a cheque can only be presented for payment once.
(D) Yes, but the case will be based on the first dishonour only.

Ans :

(A) Yes, the second dishonour and subsequent notice gives rise to a fresh cause of action.
While a payee who fails to act on a cause of action cannot use a subsequent presentation to revive a time-barred claim, this scenario is different. As long as the cheque is valid, the payee can present it multiple times. Each instance of presentation, dishonour, and subsequent notice (if the drawer fails to pay) creates a fresh cause of action.

Oct/Nov 2007

57. Read the following text:
"Offence under Secs. 138/141 shall be tried by a Judicial Magistrate or by Metropolitan Magistrate of the first class... In case of any conviction in a summary trial under this section, it shall be lawful for the magistrate to pass a sentence of imprisonment for a term not exceeding one year and an amount of fine not exceeding ₹5,000."
What does this provision under Section 143 imply?
(A) All Section 138 cases must be concluded within one year.
(B) A magistrate's power is enhanced in summary trials compared to regular trials.
(C) Summary trials for cheque dishonour have specific, lower limits on the punishment that can be awarded.
(D) Only Metropolitan Magistrates can conduct summary trials for these offences.

Ans :

(C) Summary trials for cheque dishonour have specific, lower limits on the punishment that can be awarded.
The text from Section 143 clearly outlines the parameters for a summary trial. While the overall punishment for a Section 138 offence can be up to two years' imprisonment and a large fine, if the case is tried summarily, the magistrate's sentencing power is capped at one year's imprisonment and a fine of ₹5,000, indicating specific limits for this expedited procedure.

May/June 2013

58. Assertion (A): A person who takes a cheque with a 'Not Negotiable' crossing may not be able to enforce payment.
Reason (R): A 'Not Negotiable' crossing ensures that the transferee's title is not better than the transferor's title. If the transferor had a defective title (e.g., was a thief), the transferee also gets a defective title.
(A) Both A and R are true, and R is the correct explanation of A.
(B) Both A and R are true, but R is not the correct explanation of A.
(C) A is true, but R is false.
(D) A is false, but R is true.

Ans :

(A) Both A and R are true, and R is the correct explanation of A.
The assertion is true because the transferee's rights are compromised if the transferor's title was bad. The reason correctly explains why. The 'Not Negotiable' crossing directly links the quality of the transferee's title to that of the transferor. Thus, if a thief transfers a cheque with this crossing, the new holder acquires no valid right to it.

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May/June 2018

5. In which exceptional circumstance can the holder of a wrongfully dishonoured cheque make a claim directly against the paying bank?
(A) When the drawer is a high-net-worth individual
(B) When the cheque amount is above a certain statutory limit
(C) When the bank is wound up
(D) When the holder is a government entity

Ans :

(C) When the bank is wound up
Ordinarily, a bank's liability for wrongful dishonour is only to the drawer. However, an exception occurs if the bank goes into liquidation (is wound up). In this specific scenario, the holder of the cheque is recognized as a creditor of the bank and becomes entitled to make a claim for the amount of the cheque directly.

Oct/Nov 2016

6. What is the legal position of a paying banker who debits a customer's account for a cheque on which the customer's signature is forged?
(A) The bank is protected if it acted in good faith.
(B) The bank is not entitled to debit the customer's account.
(C) The customer bears half the loss due to contributory negligence.
(D) The bank can recover the amount from the presenting bank.

Ans :

(B) The bank is not entitled to debit the customer's account.
A forged signature of the drawer (customer) on a cheque is a complete nullity. It means there is no mandate or authority from the customer to the bank to make the payment. Consequently, the bank is not entitled to debit the customer's account for the amount of such a forged cheque, as established in legal precedents.

May/June 2014

7. The Supreme Court's judgment in Canara Bank Vs. Canara Sales Corporation and Others dealt with a situation where 42 cheques were paid over a period of time. What was the nature of the defect in these cheques?
(A) The amounts were materially altered.
(B) The dates on the cheques were post-dated.
(C) The cheques were not properly crossed.
(D) The signature of the Managing Director was forged.

Ans :

(D) The signature of the Managing Director was forged.
In the case of Canara Bank Vs. Canara Sales Corporation, the company's accountant had forged the signature of the Managing Director on 42 cheques. The Supreme Court held that since the drawer's signature was forged, the bank had no mandate to pay and was therefore liable to refund the amount debited from the company's account.

Oct/Nov 2007

8. A current account is jointly operated by a Joint Secretary and a Treasurer, requiring both signatures on any cheque. A cheque for ₹11,000 is paid by the bank, but it is later discovered that the Joint Secretary's signature was forged. The bank argues that the customer's employees were dishonest. What is the likely outcome based on the precedent in Bihta Co-operative Development and Cane Marketing Union Ltd. vs Bank of Bihar?
(A) The bank is liable as there was no valid mandate to pay.
(B) The customer is liable due to the dishonesty of its own employees.
(C) The liability is shared equally between the bank and the customer.
(D) The bank is protected as one of the signatures was genuine.

Ans :

(A) The bank is liable as there was no valid mandate to pay.
The Supreme Court held in the Bihta Co-operative case that if one of the required signatures on a joint account cheque is forged, there is no mandate from the customer at all. The presence of one genuine signature is irrelevant. The question of the customer's negligence or employee dishonesty does not arise because the fundamental authority to pay was absent.

May/June 2025

9. In the Bihta Co-operative case, what was the Supreme Court's reasoning for holding the bank liable despite the bank's argument about the customer's dishonest employees?

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(as identification was taken). The bank was therefore entitled to protection, having made a valid payment in due course to the person in possession.

May/June 2020

17. The judgment in Madras Provincial Co-operative Bank Ltd. vs Official Liquidator established that payment over the counter to an Official Liquidator was not a payment in due course. Why was the bank held negligent?

(A) The liquidator's signature on the back of the cheque was determined to be a forgery.
(B) The bank should have known the liquidator had a statutory duty to deposit cheques into a bank account.
(C) The bank failed to verify the authenticity of the court order appointing the individual as liquidator.
(D) The cheque presented by the liquidator was found to have been materially altered after it was issued.

Ans :

(B) The bank should have known the liquidator had a statutory duty to deposit cheques into a bank account.
The court held the bank negligent because the cheque itself indicated it was payable to the liquidator in his official capacity. The bank was deemed to have known, or should have known, about the statutory requirement under the Companies Act and High Court rules for a liquidator to deposit such proceeds into a bank account, not encash them.

Oct/Nov 2015

18. What specific action by the Madras Provincial Co-operative Bank showed that it was aware of the payee's official capacity?

(A) The bank called for the order of his appointment.
(B) The bank manager personally knew the liquidator.
(C) The bank contacted the company under liquidation for confirmation.
(D) The bank verified the transaction with the purchaser of the properties.

Ans :

(A) The bank called for the order of his appointment.
The judgment noted that the bank had called for the official liquidator's order of appointment before making the payment. This act demonstrated that the bank was fully aware that the payee was acting in a specific official and fiduciary capacity, which should have alerted them to the impropriety of a cash payment over the counter.

May/June 2016

19. Consider the following statements regarding 'payment in due course':
Statement I: It necessarily means payment made in the ordinary course of business.
Statement II: Whether a payment is 'in due course' depends on the specific facts and circumstances of each case.

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Ans :

(A) Both Statement I and Statement II are correct.
The text points out that "payment in due course necessarily means payment made in the ordinary course." It also highlights through various case laws (Bhutoria Trading, Madras Provincial Co-op Bank) that the determination of whether a payment meets this standard is not absolute but is highly dependent on the particular facts and context of a given transaction.

Oct/Nov 2009

20. Which Section of the NI Act gives protection to a paying banker for a materially altered cheque, provided the alteration is not apparent?

(A) Section 10
(B) Section 31
(C) Section 85
(D) Section 89

Ans :

(D) Section 89
Section 89 of the Negotiable Instruments Act, 1881, specifically deals with materially altered instruments. It grants protection to a paying banker who makes a payment on such a cheque if the payment is made according to the apparent

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May/June 2010

13. In the Bank of Bihar vs Mahabir Lal case, why was the bank's payment not considered a payment to the firm (the customer)?

(A) The cheque was presented after banking hours.
(B) The signature on the cheque drawn by the firm was forged.
(C) The funds were paid to a bank employee (Potdar) who absconded with the money.
(D) The firm had already closed its cash credit account with the bank.

Ans :

(C) The funds were paid to a bank employee (Potdar) who absconded with the money.
The bank entrusted the cash to its own employee, Potdar, to accompany the customer's partner. When Potdar absconded, the court ruled that this was not a payment to the firm or its agent. Instead, it was a payment to the bank's own agent, which did not discharge the bank's liability to the customer firm.

Oct/Nov 2024

14. What key elements did the Calcutta High Court examine in Bhutoria Trading Company (BTC) vs Allahabad Bank to determine if a payment was made 'in due course'?

(A) The credit rating of the drawer and the payee.
(B) The relationship between the drawer and the payee.
(C) The time taken for the cheque to be presented for encashment.
(D) The apparent tenor of the cheque, good faith, and absence of negligence.

Ans :

(D) The apparent tenor of the cheque, good faith, and absence of negligence.
The court's decision in the Bhutoria Trading Company case hinged on the definition of 'payment in due course' from Section 10 of the NI Act. It analyzed whether the payment was made according to the apparent tenor, in good faith, and without negligence, concluding that the bank had met all these conditions and was therefore protected.

May/June 2017

15. In the Bhutoria Trading Company case, what factor supported the bank's claim that it acted without negligence?

(A) The bank obtained identification of the person encashing the cheque from another bank customer.
(B) The cheque was for a small, insignificant amount, below the bank's internal verification threshold.
(C) The company's seal on the endorsement, which was later found to be fake, appeared genuine at the time.
(D) The payment was made directly to an individual who was known to be a director of the company.

Ans :

(A) The bank obtained identification of the person encashing the cheque from another bank customer.
The bank took the precaution of having the manager, Jethmall, who presented the cheque, identified by another constituent of the bank, Kishanlal Maheswari. The court viewed this act as a reasonable precaution, which demonstrated that the bank was not negligent and took steps to verify the identity of the person receiving the payment over the counter.

Oct/Nov 2005

16. An uncrossed cheque is payable to 'BTC Ltd or order'. An individual named Jethmall, claiming to be the manager of BTC Ltd, endorses the cheque with a company seal and presents it for cash payment. The bank, after getting Jethmall identified by another customer, pays the amount. BTC Ltd later sues the bank. What is the most likely outcome?

(A) The bank is liable because uncrossed cheques to companies should not be paid in cash.
(B) The bank is protected as it made a payment in due course.
(C) BTC Ltd is liable as its manager misappropriated the funds.
(D) The identifying customer is held liable for the loss.

Ans :

(B) The bank is protected as it made a payment in due course.
This scenario mirrors the Bhutoria Trading Company vs Allahabad Bank case. The court held that payment was made according to the apparent tenor (uncrossed cheque payable to order), in good faith, and without negligence

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(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a fundamental principle of banking law. Reason (R) provides the precise legal justification for this principle. A bank's authority to pay stems from the customer's mandate, which is conveyed through their signature. If the signature is forged, the mandate is non-existent, making any payment unauthorized and the debit to the account improper.

May/June 2006

33. Which of the following is NOT a condition for a payment to be considered 'in due course' under Section 10 of the NI Act?
(A) Payment must be in accordance with the apparent tenor.
(B) Payment must be authenticated by the drawer via telephone.
(C) Payment must be made in good faith and without negligence.
(D) Payment must be made to the person in possession of the instrument.

Ans :

(B) Payment must be authenticated by the drawer via telephone.
Section 10 defines 'payment in due course' as payment made according to the apparent tenor, in good faith, without negligence, and to the person in possession. There is no statutory requirement for telephonic authentication from the drawer for a payment to be considered in due course, although banks may adopt it as a precautionary measure.

Oct/Nov 2017

34. The case of United Bank of India vs AT Ali Hussain & Co. dealt with the question of whether a paying bank could recover money paid on what type of instrument?
(A) A cheque where the drawer's signature was forged.
(B) A cheque with a forged endorsement.
(C) A cheque where the amount was materially altered.
(D) A post-dated cheque paid prematurely.

Ans :

(A) A cheque where the drawer's signature was forged.
This case specifically addressed the scenario where a paying bank made a payment on a cheque on which the drawer's signature, along with all other writings, was forged. The central legal question was the bank's ability to recover this mistaken payment from the payee or the collecting bank, who had acted in good faith.

May/June 2008

35. In the United Bank of India case, why was the paying bank's suit for recovery of money paid under mistake dismissed?
(A) The forgery was executed so poorly that the bank was deemed grossly negligent in not detecting it.
(B) The amount of the cheque was considered too small for the High Court to adjudicate the matter.
(C) The payee had changed his position to his detriment in good faith.
(D) The collecting bank had provided a formal indemnity to the paying bank against any future claims.

Ans :

(C) The payee had changed his position to his detriment in good faith.
The court held that the paying bank could not recover the money because the payee, acting in good faith, had changed his position. The payee parted with his goods only after receiving intimation that the cheque had been encashed. This application of the doctrine of estoppel prevents the bank from recovering the money from the innocent payee.

Oct/Nov 2013

36. What equitable principle was cited in the judgment of United Bank of India vs AT Ali Hussain & Co. to deny recovery to the paying bank?
(A) Caveat Emptor (Let the buyer beware)
(B) Quantum Meruit (As much as he has deserved)
(C) Ignorantia Juris Non Excusat (Ignorance of the law is no excuse)
(D) Unjust Enrichment

Ans :

(D) Unjust Enrichment
The judgment explicitly states that "Equity disfavours unjust enrichment." Since the payee had acted in good faith and parted with goods, forcing him to repay the money would cause him to suffer a loss, while he had not been unjustly

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tenor at the time of payment and the alteration is not apparent upon visual inspection.

May/June 2023

21. In the case of Bank of Maharashtra vs M/s Automotive Engineering Co., a cheque was chemically altered, changing the amount from ₹95.98 to ₹6,500. The alteration was not visible to the naked eye. The lower courts held the bank liable for not using an ultraviolet (UV) lamp. What was the Supreme Court's final decision on the bank's liability?

(A) The bank was held liable for gross negligence as UV lamps were common.
(B) The liability was shared between the bank and the customer.
(C) The bank's appeal was allowed, and it was not held liable for negligence.
(D) The bank was held liable but only for the original amount of ₹95.98.

Ans :

(C) The bank's appeal was allowed, and it was not held liable for negligence.
The Supreme Court overturned the lower courts' decisions, allowing the bank's appeal. It ruled that a bank is not obligated to use advanced technology like a UV lamp to detect non-apparent forgeries unless it is an established banking practice. Since the alteration was not visible and payment was made in due course, the bank was protected.

Oct/Nov 2018

22. According to the Supreme Court's ruling in the Bank of Maharashtra case, what is the primary standard of scrutiny a bank must apply to a cheque?

(A) Scrutiny under an ultraviolet ray lamp.
(B) Visual examination for any apparent signs of forgery or tampering.
(C) Chemical analysis of the ink used on the cheque.
(D) Telephonic confirmation with the drawer for all high-value cheques.

Ans :

(B) Visual examination for any apparent signs of forgery or tampering.
The Supreme Court's judgment emphasized that the standard duty of care involves a visual scrutiny of the cheque. The bank is protected if it pays according to the 'apparent tenor' and the alteration is 'not apparent'. The court held that requiring scrutiny under a UV lamp, in the absence of an established practice, was an incorrect legal proposition.

May/June 2007

23. Which of the following was NOT a ground cited by the Supreme Court for allowing the Bank of Maharashtra's appeal regarding the chemically altered cheque?

(A) Section 89 protects the banker if an alteration is not apparent.
(B) Section 10 defines payment in due course based on the apparent tenor.
(C) The bank agent had verified the signature and found no visual defects.
(D) The cost of keeping a UV lamp at the branch was prohibitively high.

Ans :

(D) The cost of keeping a UV lamp at the branch was prohibitively high.
While the court noted the cost of UV lamp scrutiny might be nominal, this was not a primary ground for its decision. The core legal reasoning was based on the interpretation of Sections 10, 31, and 89 of the NI Act, the lack of any apparent defect upon visual inspection, and the absence of an established banking practice requiring UV scrutiny.

Oct/Nov 2025

24. What argument was made regarding the location of the bank branch in the Bank of Maharashtra case, which the Supreme Court ultimately dismissed as a justification for a higher standard of care?

(A) The branch was in an industrial area where forgery was rampant.
(B) The branch was in a remote rural area with poor security.
(C) The branch was located overseas and subject to different laws.
(D) The branch was new and had inexperienced staff.

Ans :

(A) The branch was in an industrial area where forgery was rampant.
The lower courts had argued that because the branch was in an industrial area known for rampant forgery, the bank had a higher duty of care, which included using a UV lamp. The

Supreme Court rejected this, stating that this fact alone did not justify imposing a legal obligation to use advanced scrutiny beyond visual examination.

May/June 2012

25. The case of Brahma Shumshere Jung Bahadur vs Chartered Bank involved a materially altered cheque. What was unique about the account on which this cheque was drawn?

(A) It was a dormant account that was suddenly activated.
(B) It was a joint account held by multiple family members.
(C) It was an overdraft account with a fluctuating limit.
(D) It was a government account requiring special clearance.

Ans :

(C) It was an overdraft account with a fluctuating limit.
The case was significant because the cheque was drawn on an overdraft account. The court clarified that the protection under Section 89 of the NI Act, which refers to the bank being 'liable to pay', applies equally to a liability arising from an overdraft agreement, not just to funds held in a regular deposit account.

Oct/Nov 2014

26. In the Brahma Shumshere case, the court held the paying bank was protected under Section 89. What was the key reason for this protection?

(A) The alteration on the cheque was not visible at the time of payment.
(B) The drawer, B, had a history of issuing cheques written by other people.
(C) The collecting bank had guaranteed the payment.
(D) The amount of the cheque was within the sanctioned overdraft limit.

Ans :

(A) The alteration on the cheque was not visible at the time of payment.
The court's decision to grant protection to the paying bank under Section 89 was primarily based on the finding that there was no visible alteration or obliteration on the cheque. Since the payment was made according to the 'apparent tenor' of the instrument, and the forgery was not detectable by normal inspection, the bank was not held liable.

May/June 2019

27. The Madras High Court's decision in Tanjore Permanent Bank vs S.R. Rangachari denied the bank protection under Section 89. What was the critical difference in this case compared to the Brahma Shumshere case?

(A) The cheque was drawn on a current account, not an overdraft account.
(B) The drawer's signature was forged.
(C) The payee was a fictitious person.
(D) The material alterations on the cheques were apparent and visible.

Ans :

(D) The material alterations on the cheques were apparent and visible.
In the Tanjore Permanent Bank case, the court found that the alterations made to the blank cheques (filling in amounts and payee names) were apparent and visible. Because the alteration was not concealed and was detectable upon reasonable inspection, the bank could not claim that the alteration was 'not apparent', thereby losing the protection of Section 89.

Oct/Nov 2006

28. A customer, R, gives his bank manager three signed blank cheques to facilitate an advance of ₹16,000. One cheque is used correctly. The other two are filled out by a bank employee for ₹7,600 and ₹4,200 with visible alterations and paid by the bank. The bank later sues R for the overdraft. What is R's strongest defense against the debits of ₹7,600 and ₹4,200?

(A) The bank manager had no authority to request signed blank cheques from a customer.
(B) The bank cannot claim protection under Sec. 89 as the alterations were apparent.
(C) R can prove that he never received the cash proceeds from the two fraudulent cheques.
(D) The bank is vicariously liable for the fraudulent actions committed by its own employee.

Ans :

(B) The bank cannot claim protection under Sec. 89 as the alterations were apparent.
This scenario is based on Tanjore Permanent Bank vs S.R. Rangachari. The court held that since the alterations were visible, the payment was not made on a cheque where the alteration was 'not apparent'. Therefore, the bank loses the

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statutory protection of Section 89 and cannot hold the customer liable for payments made against such visibly altered instruments.

May/June 2021

29. Consider the following principle from Bhashyam and Adiga's Negotiable Instruments Act: "where an alteration in a cheque is initialled not by all the drawers but only some of them, the bank will be paying the amount on the said cheque at its own risk."
A cheque drawn on a joint account requiring signatures of A and B is altered. The alteration is authenticated only by the initials of A. If the bank pays this cheque, what is the consequence?
(A) The bank is fully protected under Section 89.
(B) The payment is valid, and the account can be debited.
(C) The bank pays at its own risk and may not be able to debit the account.
(D) Drawer B is solely liable for the full amount of the cheque.

Ans :

(C) The bank pays at its own risk and may not be able to debit the account.
The principle states that alterations must be properly authenticated. In a joint account, this means all drawers must authenticate any change. By paying on an alteration confirmed by only one of the joint account holders, the bank is not acting on a complete and proper mandate. It therefore pays at its own risk and loses statutory protection.

Oct/Nov 2021

30. In the case of Bareilly Bank Ltd. vs Naval Kishore, the bank was held liable for paying three forged cheques. Which fact was a crucial piece of evidence against the bank?
(A) The individual who presented the cheques was a person with a known criminal record.
(B) The customer N had previously filed a report that his cheque book was stolen.
(C) The bank had attempted to call N for confirmation, but he did not respond to the call.
(D) The cheques used were not from the cheque book issued to the customer N.

Ans :

(D) The cheques used were not from the cheque book issued to the customer N.
A significant point of negligence highlighted in the case was that the three cheques, totaling ₹19,500, were from a different cheque book than the one officially issued to the customer, N. The bank's inability to explain this discrepancy, combined with other factors like a dissimilar signature, pointed towards a failure to exercise due care and diligence.

May/June 2024

31. What additional evidence in the Bareilly Bank Ltd. vs Naval Kishore case suggested involvement of the bank's own employees in the fraud?
(A) The ledger page of the customer's account showed erasures and scorings.
(B) A formal confession to the fraud was obtained from one of the bank clerks involved.
(C) The bank's security cameras covering the teller area were found to be disabled on that day.
(D) The bank manager was discovered to be a close relative of the person who encashed the cheques.

Ans :

(A) The ledger page of the customer's account showed erasures and scorings.
The court noted that evidence was presented showing erasures and scorings on the ledger page corresponding to the customer's account. This, along with the customer's signature being missing from the cheque book issue register, strongly suggested an internal attempt to cover up the fraudulent transactions, implicating the bank's own staff and reinforcing the finding of negligence.

Oct/Nov 2008

32. Assertion (A): A paying bank is generally not entitled to debit a customer's account for a cheque bearing a forged drawer's signature.
Reason (R): A forged signature constitutes a nullity and does not represent a valid mandate from the customer to the bank.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

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(A) The bank admitted to its own negligence in the transaction.
(B) The payment was made on a loose leaf cheque, which is inherently risky.
(C) The forgery of one signature meant there was never any mandate from the customer.
(D) The bank failed to obtain confirmation from both signatories before payment.

Ans :

(C) The forgery of one signature meant there was never any mandate from the customer.
The court's primary reasoning was that the forgery of one of the two required signatures completely invalidated the instrument as a mandate from the customer. Because a valid mandate never existed, questions regarding the customer's internal issues, such as employee dishonesty or negligence between the time of signing and presentation, were deemed irrelevant to the bank's unauthorized payment.

Oct/Nov 2019

10. Protection for a paying banker on a crossed cheque is provided under which section of the Negotiable Instruments Act, 1881?
(A) Section 128
(B) Section 31
(C) Section 89
(D) Section 10

Ans :

(A) Section 128
Section 128 of the Negotiable Instruments Act, 1881, provides statutory protection to a paying banker when making payment in due course of a crossed cheque. This section works in conjunction with other protective provisions, but it specifically lays down the criteria for payment of crossed cheques, which was discussed in the context of other case laws.

May/June 2009

11. Read the following definition: "The Expression payment in due course has been defined in Section 10 of the Negotiable Instruments Act to mean payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof, under circumstances which do not afford reasonable ground for believing that he is not entitled to receive payment..."
Based on this definition, which of the following payments would NOT qualify as a 'payment in due course'?
(A) Payment made to a person in possession of the cheque after verifying their identity.
(B) Payment made without noticing a very faint, almost invisible alteration.
(C) Payment made according to the visible instructions on the face of the cheque.
(D) Payment made to a person despite having received a valid stop-payment instruction from the drawer.

Ans :

(D) Payment made to a person despite having received a valid stop-payment instruction from the drawer.
A valid stop-payment instruction from the drawer constitutes a circumstance that affords a reasonable ground for the bank to believe that the person presenting the cheque is not entitled to receive payment. Making a payment despite such an instruction would be considered negligent and would therefore not meet the criteria for a 'payment in due course' under Section 10.

Oct/Nov 2011

12. According to the judgment in Bank of Bihar vs Mahabir Lal, when can a banker seek protection under Section 85 of the NI Act?
(A) Only when payment is made to the drawer directly.
(B) Only when payment is made to the holder, his servant, or his agent.
(C) Only when payment is made to an employee of the bank on behalf of the customer.
(D) Only when payment is made through the clearing house system.

Ans :

(B) Only when payment is made to the holder, his servant, or his agent.
The Supreme Court clarified in Bank of Bihar vs Mahabir Lal that for a bank to claim protection under Section 85, the payment must be a 'payment in due course'. This requires the payment to be made to the rightful party, which is defined as the holder of the instrument, or their authorized servant or agent.

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enriched by any windfall. The loss, caused by the bank's mistake, should lie where it falls.

May/June 2015

37. A bank pays a cheque for ₹5,000 which is a very skillful forgery. The payee, a supplier, received the cheque as payment for goods. After his bank (the collecting bank) confirms the cheque is cleared, he ships the goods to the party who gave him the cheque. The paying bank later discovers the forgery and sues the supplier. What is the likely outcome?

(A) The supplier must refund the ₹5,000 as he received money for a forged instrument.
(B) The collecting bank is liable to the paying bank for presenting a forged cheque.
(C) The paying bank cannot recover the money from the supplier.
(D) The supplier and the collecting bank are jointly liable for the loss.

Ans :

(C) The paying bank cannot recover the money from the supplier.
This scenario is based on United Bank of India vs AT Ali Hussain & Co. The paying bank is disentitled to recover the money due to the doctrine of estoppel. The supplier (payee) acted in good faith and changed his position (shipped the goods) based on the payment. Forcing him to repay would be inequitable as he was innocent.

Oct/Nov 2012

38. Identify the incorrect statement regarding a paying banker's responsibilities and protections.

(A) A bank is liable to the drawer for wrongful dishonour of a cheque.
(B) A bank is protected for paying a visibly altered cheque if the payment is in good faith.
(C) A bank is not protected if the drawer's signature on a cheque is forged.
(D) A bank is protected under Sec. 89 if an alteration is not apparent and payment is in due course.

Ans :

(B) A bank is protected for paying a visibly altered cheque if the payment is in good faith.
This statement is incorrect. If an alteration on a cheque is apparent or visible, the instrument is not in accordance with the 'apparent tenor'. Paying such a cheque, even in good faith, would be considered negligent, and the bank would lose the protection of Section 89, as seen in the Tanjore Permanent Bank case.

May/June 2011

39. Match List-I (Legal Case) with List-II (Key Principle).

List-I
P. Bihta Co-operative Union vs Bank of Bihar
Q. Bank of Maharashtra vs Automotive Engineering Co.
R. Madras Provincial Co-op Bank vs Official Liquidator
S. United Bank of India vs AT Ali Hussain & Co.

List-II
1. A bank is not negligent for not using a UV lamp for non-apparent alterations.
2. Forgery of one signature on a joint account cheque invalidates the mandate.
3. Money paid on a forged cheque is not recoverable if the payee has changed position in good faith.
4. Paying cash to an Official Liquidator over the counter is negligence.

(A) P-1, Q-2, R-3, S-4
(B) P-2, Q-4, R-1, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(D) P-2, Q-1, R-4, S-3
(P) The Bihta Co-operative case established that one forged signature on a joint account cheque means no mandate. (Q) The Bank of Maharashtra case ruled that not using a UV lamp is not negligence for invisible alterations. (R) The Madras Provincial case held that cash payment to a liquidator was negligent. (S) The United Bank case established non-recoverability if the payee's position has changed.

Oct/Nov 2020

40. Which of the following statements correctly describes the relationship between Section 89 and Section 10 of the NI Act?

(A) To get protection under Section 89, the payment must also satisfy the conditions of 'payment in due course' under Section 10.
(B) Section 89 provides a complete exception to the rules of negligence laid out in Section 10.
(C) Section 10 applies only to forged cheques, whereas Section 89 applies exclusively to altered cheques.

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(D) The two sections are legally mutually exclusive and can never be applied to the same transaction.

Ans :

(A) To get protection under Section 89, the payment must also satisfy the conditions of 'payment in due course' under Section 10.
Section 89 provides protection for payment of a non-apparently altered cheque, but it adds the condition that the payment must be made "otherwise in due course." This directly links it to Section 10, meaning the payment must still be made in good faith, without negligence, and according to the apparent tenor to qualify for protection under Section 89.

May/June 2022

41. What is the legal implication if a material alteration on a cheque is not authenticated by the drawer's full signature or initials?
(A) The cheque becomes a bearer instrument automatically.
(B) The bank must obtain telephonic confirmation before payment.
(C) The bank pays such a cheque at its own risk.
(D) The cheque is considered valid up to the original amount before alteration.

Ans :

(C) The bank pays such a cheque at its own risk.
An unauthenticated alteration means the cheque is not in proper order, and its apparent tenor has been visibly disturbed. As established in the Tanjore Permanent Bank case and the principle cited from Bhashyam and Adiga, paying a cheque with an unconfirmed alteration is a risk the bank takes upon itself, as it may not be able to debit the drawer's account.

Oct/Nov 2023

42. Consider the following statements about a paying banker's liability:
1. The bank is liable if it pays a cheque disregarding a crossing.
2. The bank is liable if it pays a cheque after receiving a stop payment order.
3. The bank is not liable if the drawer's signature is forged but the forgery is perfect.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(A) 1 and 2 only
Paying a cheque disregarding a crossing makes the bank liable to the true owner. Paying after a stop payment order is a breach of mandate. However, a bank is always liable for a forged drawer's signature, regardless of how perfect the forgery is, because a forged signature means there was no mandate to pay from the customer.

May/June 2016

43. Read the following excerpt from a court judgment: "We have no doubt that the officers of the bank did not realise, as they should have done, that the bank was doing something improper, but in the circumstances there was negligence. They knew or must have deemed to have known that this money could only be collected by the payee through his own bank..."
This judgment pertains to which of the following situations?
(A) Payment of a chemically altered cheque without using a UV lamp.
(B) Payment on a cheque where one of two joint signatures was forged.
(C) Payment on a skillfully forged cheque to a payee who then supplied goods.
(D) Payment in cash over the counter to an Official Liquidator.

Ans :

(D) Payment in cash over the counter to an Official Liquidator.
This excerpt is from the judgment in the Madras Provincial Co-operative Bank Ltd. vs Official Liquidator case. The court is describing the bank's negligence in paying cash to the liquidator, stating that the bank should have known that the proper procedure was for the liquidator to deposit the cheque into his official bank account for collection.

Oct/Nov 2009

44. What does the term 'Apparent Tenor of the Instrument' primarily refer to?
(A) The known creditworthiness and financial standing of the person who is presenting the cheque.
(B) The instructions and details visible on the face of the instrument without microscopic examination.

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(C) The various hidden security features that are embedded by the printer within the cheque leaf.
(D) The general market reputation and business history of the drawer who has issued the cheque.

Ans :

(B) The instructions and details visible on the face of the instrument without microscopic examination.
'Apparent tenor' refers to what the instrument appears to be on its face to a reasonable person through normal visual inspection. This includes the payee's name, the amount in words and figures, the date, and the signature, as they appear without any obvious signs of alteration or irregularity. Payment should conform to these visible instructions.

May/June 2023

45. Which of the following scenarios would most likely deprive a paying bank of statutory protection?
(A) Paying a cheque where amounts in words and figures differ, by correctly paying the amount stated in words.
(B) Paying a cheque which is dated on a Sunday or another designated public holiday.
(C) Paying a cheque where the amount has been erased and rewritten, and the change is not initialed by the drawer.
(D) Paying a bearer cheque over the counter to a person who is not the original named payee.

Ans :

(C) Paying a cheque where the amount has been erased and rewritten, and the change is not initialed by the drawer.
An unauthenticated erasure and rewrite constitute a visible, material alteration. This disturbs the 'apparent tenor' of the instrument and should alert the banker to a potential issue. Paying such a cheque without confirmation from the drawer is considered negligent and would cause the bank to lose the protection provided under Section 89 of the NI Act.

Oct/Nov 2018

46. The legal principle that a person is prevented from denying a state of affairs they led another to believe, is known as:
(A) Doctrine of Ultra Vires
(B) Doctrine of Laches
(C) Doctrine of Subrogation
(D) Doctrine of Estoppel

Ans :

(D) Doctrine of Estoppel
The doctrine of estoppel was a key factor in the United Bank of India vs AT Ali Hussain & Co. decision. The paying bank, by honouring the forged cheque, represented that it was genuine. The payee acted on this representation by parting with goods. The bank was therefore 'estopped' from recovering the money from the innocent payee.

May/June 2007

47. B, a member of a royal family, has an overdraft account. A cheque signed by him is stolen, and the amount is altered from ₹256 to ₹2,34,081. The alteration is not visible. The bank pays the cheque, exceeding B's overdraft limit of ₹70,000. B sues the bank. What is the bank's best defense?
(A) The bank is protected under Section 89 as the alteration was not apparent.
(B) B is liable for negligence as he allowed the cheque to be stolen.
(C) The collecting bank is responsible for the altered amount.
(D) The payment was unauthorized as it exceeded the overdraft limit.

Ans :

(A) The bank is protected under Section 89 as the alteration was not apparent.
This reflects the Brahma Shumshere case. The court held that since the alteration was not visible, the bank paid according to the apparent tenor and was protected by Section 89. The court also clarified that this protection extends to payments made under overdraft agreements, and the fact that the payment exceeded a fluctuating limit did not negate the protection.

Oct/Nov 2025

48. Identify the correct statement regarding the legal position of a paying bank.
(A) A bank can never recover money paid by mistake on a forged cheque.
(B) A bank can be held liable for paying a cheque to a liquidator in cash over the counter.
(A) A bank is always negligent if it does not use a UV lamp to check for alterations.

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it acted negligently at the very first stage of the relationship: opening the account. Failing to obtain any reference for a new customer was deemed a lack of due care, which directly enabled the fraud, thus stripping the bank of statutory protection.

Oct/Nov 2017

9. "Appellant opened an account in the name of M/s. Axle Conductor Industries Ltd. by the Proprietor, R.K. Vyas... The High Court held that there was failure in following the proper procedure for opening account in the name of a limited company, the account was opened as a proprietary concern, the staff of the bank did not bestow sufficient care even to notice the word 'Ltd.'."
Based on the excerpt from the Syndicate Bank vs Jaishree Industries case, what was the primary negligence of the bank?
(A) Collecting a draft for an unusually large amount.
(B) Failing to verify the signature of the proprietor, R.K. Vyas.
(C) Opening an account for a limited company as if it were a proprietorship concern.
(D) Not scrutinising the memorandum of association of the introducer.

Ans :

(C) Opening an account for a limited company as if it were a proprietorship concern.
The source clearly states the High Court's finding that the bank failed in its duty by not following the correct procedure for a limited company. The staff overlooked the 'Ltd.' suffix and treated the entity as a proprietorship. This fundamental error in establishing the customer's correct legal constitution was a significant act of negligence by the collecting bank.

May/June 2006

10. In the Syndicate Bank vs Jaishree Industries case, what was the consequence for the appellant bank due to its negligence in the account opening and collection process?
(A) The bank was found negligent throughout and was not entitled to protection under Section 131.
(B) The bank was given a stern warning by the High Court but faced no financial penalty.
(C) The bank was found negligent but was still granted partial protection under Section 131.
(D) The bank was ordered to share the liability with the State Bank of India, the paying bank.

Ans :

(A) The bank was found negligent throughout and was not entitled to protection under Section 131.
The High Court's judgment was unequivocal. It found a lack of care on the bank's part in the entire transaction, from the improper account opening to the collection of the draft. Consequently, the court held that the appellant bank had acted without due care, was negligent, and therefore could not claim the statutory protection provided under Section 131.

Oct/Nov 2024

11. Which of the following statements accurately reflects a condition for claiming protection under Sec. 131 as reiterated in the Syndicate Bank vs Jaishree Industries case?
(A) The banker must act as a holder for value, not merely as an agent for collection.
(B) The person for whom the banker acts need not be an existing customer.
(C) The cheque can be an open cheque as long as the bank acts in good faith.
(D) The banker should receive payment for a customer, acting as a mere agent for collection.

Ans :

(D) The banker should receive payment for a customer, acting as a mere agent for collection.
The High Court in this case restated the established conditions for protection. One of the key requirements is that the banker must act as a mere agent for its customer during the collection process. This distinguishes the role from that of a holder for value, where the bank would have its own title to the instrument, altering its legal position.

May/June 2010

12. "A customer of that branch had introduced D to the manager... Bank A had claimed that the introducer was a well-known customer of the bank A, and a leading merchant of Salem... as per the evidence recorded these claims were not true. The introducer had an account and had some fixed deposits... The transactions were for paltry

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(A) I, II, and III only
(B) I and IV only
(C) II and III only
(D) All of the above

Ans :

(A) I, II, and III only
The bank gets no protection for a forged drawer's signature (no mandate). It gets no protection for a visibly altered, unauthenticated cheque (not apparent tenor, negligence). It also gets no protection if it ignores a stop payment order (breach of mandate). Protection is available under Section 89 only for non-apparently altered cheques paid in due course (IV).

May/June 2021

53. The term "Cheque Truncation System" (CTS), as mentioned in the chapter, refers to a process where:
(A) The physical movement of cheques is stopped and an electronic image is transmitted for clearing.
(B) A security process where cheques above a certain value are physically cut in half before processing.
(C) The standard validity period of a cheque is officially shortened or "truncated" by law.
(D) A bank action where a customer's cheque-issuing facility is temporarily suspended or "truncated".

Ans :

(A) The physical movement of cheques is stopped and an electronic image is transmitted for clearing.
Cheque Truncation is the process of converting a physical cheque into a digital image for electronic processing and transmission between banks. This system obviates the need for the physical movement of cheques, leading to faster clearing cycles and changes in the obligations of paying and collecting banks, as noted in the chapter's reference to Unit 6.

Oct/Nov 2010

54. According to the summary of the chapter, which of the following is the ultimate deciding factor for a banker's protection?
(A) The amount of the cheque in question.
(B) Whether the payment was made in due course.
(C) The relationship of the bank with the customer.
(D) The type of crossing on the cheque.

Ans :

(B) Whether the payment was made in due course.
The chapter's summary reiterates that the cornerstone of a banker's protection is making the payment 'in due course' as defined in Section 10. This involves acting in good faith, without negligence, and as per the apparent tenor. Whether dealing with alterations or endorsements, adherence to the principles of payment in due course is paramount for securing statutory protection.

May/June 2005

55. What is the most significant risk a bank takes when it pays a cheque with a material alteration that is initialled by only one of the two required signatories of a joint account?
(A) The bank may face a direct regulatory penalty from the Reserve Bank of India for non-compliance.
(B) The cheque will automatically be considered a bearer instrument payable to anyone who presents it.
(C) The bank will become directly liable to the payee for the full amount of the altered cheque.
(D) The payment may not be considered as having been made on the authority of all drawers.

Ans :

(D) The payment may not be considered as having been made on the authority of all drawers.
For a joint account, the mandate to the bank comes from all account holders collectively. An alteration must therefore be authenticated by all of them. If only one signatory authenticates the change, the bank no longer has a valid, complete mandate for the altered instrument and risks being unable to debit the account for the payment made.

Oct/Nov 2022

56. Assertion (A): A paying bank is protected under Section 89 of the NI Act when it pays a cheque that has been chemically and non-visibly altered.
Reason (R): The protection under Section 89 is contingent on the alteration not being apparent

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CHAPTER 14

Responsibility of Collecting Bank

Oct/Nov 2015

1. According to the introductory section, the duties of a collecting banker are primarily imposed by which of the following?

(A) Specific provisions of the Negotiable Instruments Act, 1881

(B) The practice adopted by bankers over a period rather than by law

(C) Directives issued exclusively by the Reserve Bank of India

(D) Rulings under the Indian Contract Act, 1872

Ans :

(B) The practice adopted by bankers over a period rather than by law

The duties of a collecting banker are not explicitly codified in a single piece of legislation. Instead, they have evolved over time through established banking customs and practices. These practices, shaped by judicial precedents and the need for prudent banking, form the basis of the collecting banker's responsibilities, rather than specific statutory provisions alone.

May/June 2008

2. Section 131 of the Negotiable Instruments Act, 1881, grants statutory protection to a collecting banker for the collection of which instruments?

(A) Both cheques and drafts

(B) Cheques only

(C) Drafts only

(D) Promissory notes and bills of exchange

Ans :

(A) Both cheques and drafts

The statutory protection afforded to a collecting banker is not limited to cheques alone. Section 131 of the Negotiable Instruments Act, 1881, explicitly extends this protection to cover both cheques and drafts. This ensures that bankers are shielded from liability for conversion under similar conditions when handling either of these two common payment instruments for their customers.

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Oct/Nov 2022

3. To claim protection under Section 131 of the Negotiable Instruments Act, a collecting banker must satisfy several conditions. Which of the following statements correctly represent these conditions?

1. The banker must act in good faith and without negligence.
2. The payment must be received for a person who is a customer.
3. The cheque must be crossed generally or specially to the collecting bank.
4. The cheque must be an open or bearer cheque.

(A) 1 and 4 only

(B) 2 and 3 only

(C) 1, 2, and 3 only

(D) 1, 2, 3, and 4

Ans :

(C) 1, 2, and 3 only

The protection under Section 131 is contingent on several key conditions. The banker must act in good faith and without negligence, receive payment for a customer, and the instrument must be a crossed cheque. An open or bearer cheque does not qualify for this specific statutory protection, as the crossing is a fundamental prerequisite for the collecting banker's safeguard.

May/June 2014

4. Which of the following is NOT a condition that a collecting banker must satisfy to avail the protection under Section 131 of the NI Act?

(A) The collecting banker acts in good faith.

(B) The collecting banker receives payment for a customer.

(C) The collecting banker verifies the prima facie genuineness of the cheque under CTS clearing.

(D) The collecting banker obtains a formal indemnity from the customer before collection.

(A) Honour the cheque for ₹15,000 as the total account balance is sufficient.
(B) Dishonour the cheque, as the 'properly available' balance is only ₹10,000.
(C) Dishonour the cheque immediately as the entire account is considered frozen by the order.
(D) Make a partial payment of ₹10,000 and return the cheque for the remaining ₹5,000.

Ans :

(B) Dishonour the cheque, as the 'properly available' balance is only ₹10,000.
A garnishee order attaches a specific amount, making it unavailable for payment. In this case, ₹40,000 is blocked. The 'properly available' funds are the total balance minus the attached amount (₹50,000 - ₹40,000 = ₹10,000). Since the available balance of ₹10,000 is insufficient to pay the ₹15,000 cheque, the bank must dishonour it for insufficient funds.

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and the payment being made in due course.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) reflects the outcome of the Bank of Maharashtra case. Reason (R) provides the exact legal basis for this outcome directly from the text of Section 89. The protection is granted precisely because the alteration was not apparent and the payment was otherwise made in due course, fulfilling the two key conditions of the section.

May/June 2018

57. Which of the following pairs of 'Legal Section' and its 'Subject Matter' is incorrectly matched based on the chapter's content?
(A) Section 10, NI Act : Definition of 'Payment in due course'.
(B) Section 31, NI Act : Bank's liability for wrongful dishonour.
(C) Section 128, NI Act : Protection for paying a cheque with a forged drawer's signature.
(D) Section 89, NI Act : Protection for payment of altered cheque where alteration is not apparent.

Ans :

(C) Section 128, NI Act : Protection for paying a cheque with a forged drawer's signature.
Section 128 of the NI Act deals with the protection for a banker making payment of a crossed cheque. The chapter explicitly states that a banker does not get protection if the signature of the drawer is forged. There is no specific section that protects a bank for paying on a forged drawer's signature.

Oct/Nov 2016

58. Identify the correct chronological sequence of events in the case of United Bank of India vs AT Ali Hussain & Co.
1. The paying bank filed a suit for recovery against the payee.
2. The payee parted with goods after receiving intimation of encashment.
3. A perfectly forged cheque was presented and paid by the paying bank.
4. The collecting bank intimated its customer (the payee) that the cheque was encashed.

(A) 3, 4, 2, 1
(B) 3, 1, 4, 2
(C) 1, 3, 2, 4
(D) 2, 3, 4, 1

Ans :

(A) 3, 4, 2, 1
The logical sequence of events was: First, the forged cheque was presented and paid (3). Second, the collecting bank informed the payee of the successful encashment (4). Third, based on this information, the payee changed his position by parting with the goods (2). Finally, upon discovering the forgery later, the paying bank initiated legal action for recovery (1).

May/June 2014

59. A paying bank is NOT considered negligent in which of the following circumstances, according to the case laws discussed?
(A) Paying a cheque in cash over the counter to a person known to be an Official Liquidator.
(B) Paying a cheque that has a visible alteration which has not been authenticated by the drawer.
(C) Paying a cheque that is from a chequebook series that was not issued to the specific customer.
(D) Paying a cheque without using a UV lamp where the alteration is not visible to the naked eye.

Ans :

(D) Paying a cheque without using a UV lamp where the alteration is not visible to the naked eye.
The Supreme Court in Bank of Maharashtra vs M/s Automotive Engineering Co. held that not using a UV lamp for a non-apparent alteration does not constitute negligence. The standard of care is visual scrutiny. The other options describe situations where courts have explicitly found banks to be negligent or acting outside their mandate and therefore liable.

Oct/Nov 2007

60. A customer's account has a balance of ₹50,000. A garnishee order is served on the bank for ₹40,000. Subsequently, a cheque for ₹15,000 drawn by the customer is presented. What is the correct action for the bank?

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Ans :

(D) The collecting banker obtains a formal indemnity from the customer before collection.
The conditions for protection under Section 131 focus on the banker's conduct, such as acting in good faith, without negligence, and for a customer, along with verifying the instrument's genuineness. The Act does not mandate obtaining a formal indemnity from the customer as a prerequisite for this statutory protection. Such a requirement is not listed among the specified conditions.

Oct/Nov 2005

5. The condition that a collecting banker must look for any apparent fraud, forgery, or tampering with due diligence under CTS clearing primarily relates to which fundamental principle?
(A) Acting for a customer
(B) Acting in good faith
(C) Acting without negligence
(D) Collecting a crossed cheque

Ans :

(C) Acting without negligence
The requirement to diligently check for apparent discrepancies like fraud, forgery, or tampering is a core component of the duty to act without negligence. Failure to observe and act upon such red flags, which are visible with ordinary care, would constitute negligence on the part of the collecting banker, thereby disqualifying the bank from the protection offered under Section 131.

May/June 2020

6. The responsibility of a collecting banker to prove that it has not been negligent and has taken all necessary precautions rests with whom?
(A) The true owner of the cheque
(B) The collecting bank itself
(C) The paying banker
(D) The Reserve Bank of India

Ans :

(B) The collecting bank itself
To avail the statutory protection under Section 131, the onus of proof lies with the collecting bank. It must affirmatively demonstrate to the court that it has acted without negligence and has exercised all the care and precautions expected of a prudent banker in the entire process of collecting a cheque. This is a defensive requirement for the bank.

Oct/Nov 2011

7. As per RBI advice and KYC norms, what is the primary purpose of obtaining documentary proofs for identity, constitution, and address when opening an account?
(A) To assess the customer's creditworthiness for future loans
(B) To comply with international banking standards for profit reporting
(C) To ensure the customer has a minimum balance in the account
(D) To prevent negligence in the account opening process and establish the customer's bona fides

Ans :

(D) To prevent negligence in the account opening process and establish the customer's bona fides
Obtaining proper documentation as per KYC norms is a fundamental duty of a banker to prevent being used for fraudulent activities. This due diligence at the account opening stage is crucial to establish the genuine identity of the customer. It helps the bank demonstrate that it acted without negligence, which is a key condition for claiming statutory protection later.

May/June 2025

8. A person steals a cheque, forges the payee's signature, and opens an account at Bank X by posing as the payee. Bank X does not ask for any references and collects the cheque. The thief then withdraws the money. Based on the precedent in Ladbroke vs Todd (1914), what is the likely outcome for Bank X?
(A) Bank X is held liable for negligence in opening the account without obtaining any reference.
(B) Bank X is protected under Section 131 as it acted for a customer.
(C) Bank X is not liable as the forgery was the thief's fault.
(D) Bank X is only liable for half the amount as the thief shares the blame.

Ans :

(A) Bank X is held liable for negligence in opening the account without obtaining any reference.
The facts mirror the case of Ladbroke vs Todd. In that case, the bank was held liable because

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(C) A bank is not liable for a forged drawer's signature if the payment was made in good faith.

Ans :

(B) A bank can be held liable for paying a cheque to a liquidator in cash over the counter.
As established in the Madras Provincial Co-operative Bank case, paying a cheque in cash to a fiduciary like an Official Liquidator, who has a statutory duty to deposit such instruments, constitutes negligence. This makes the bank liable for the loss if the funds are misappropriated, as it is not a payment in due course.

May/June 2012

49. In which case did the court find the paying bank liable partly because the fraudulent cheques were not from the book issued to the customer and the ledger page showed erasures?
(A) Bhutoria Trading Company vs Allahabad Bank
(B) Bareilly Bank Ltd. vs Naval Kishore
(C) Tanjore Permanent Bank vs S.R. Rangachari
(D) Bank of Bihar vs Mahabir Lal

Ans :

(B) Bareilly Bank Ltd. vs Naval Kishore
In the Bareilly Bank case, the bank's negligence was compounded by several factors. The court noted that the cheques paid were from a different series than the one issued to the customer, the specimen signature did not match, and the bank's own ledger showed suspicious erasures, all of which pointed to a clear failure of due diligence.

Oct/Nov 2014

50. Read the following summary of a legal decision: "The High Court dismissed the appeal and held that both from the point of view of equitable principles and the doctrine of estoppel, the paying bank was disentitled to recover the money either from the collecting bank or the payee."
This decision implies that:
(A) An innocent payee who changes their position in good faith is protected from recovery action by the paying bank.
(B) A paying bank must always bear the financial loss resulting from any type of mistaken payment.
(C) The collecting bank acts as a legal guarantor for the genuineness of all cheques it processes.
(D) The doctrine of estoppel is only applicable in cases where the collecting bank is proven to be negligent.

Ans :

(A) An innocent payee who changes their position in good faith is protected from recovery action by the paying bank.
This summary, from the United Bank of India vs AT Ali Hussain & Co. case, highlights the application of estoppel. The principle is that if a paying bank makes a mistake (e.g., paying a forged cheque) and an innocent payee relies on that payment and changes their position (e.g., delivers goods), the bank cannot later recover the money.

May/June 2019

51. The condition "properly available" funds, as mentioned in Section 31 of the NI Act, means the funds must be:
(A) Sufficient in the account to fully cover the face value amount of the cheque.
(B) Held specifically in a current account and not in a savings or fixed deposit account.
(C) Free from any lien, garnishee order, or other legal restraint.
(D) Confirmed as available by the drawer via phone call before the cheque is presented.

Ans :

(C) Free from any lien, garnishee order, or other legal restraint.
Even if an account has a sufficient credit balance, the funds may not be 'properly available' for payment. This occurs if the funds are subject to a banker's lien, a garnishee order from a court, or any other form of legal attachment. In such cases, the bank is justified in dishonouring a cheque.

Oct/Nov 2006

52. Which of the following represents a situation where a paying bank would NOT be able to claim protection under the Negotiable Instruments Act?
I. Paying a cheque with a forged drawer's signature.
II. Paying a cheque where a visible alteration is not authenticated by the drawer.
III. Paying a cheque after having received a valid stop-payment instruction.
IV. Paying a non-apparently altered cheque in good faith.

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amounts and the balance in the account at the relevant time was only ₹192.57."
What does this excerpt from the Indian Bank vs Catholic Syrian Bank case imply about the collecting banker's duty?
(A) An introduction from any existing account holder is sufficient to avoid negligence.
(B) The banker must independently verify the credibility and standing of the introducer.
(C) A low account balance of the introducer automatically makes the introduction invalid.
(D) Fixed deposits held by the introducer are a satisfactory proof of their reliability.

Ans :

(B) The banker must independently verify the credibility and standing of the introducer.
The source highlights the bank's negligence in blindly accepting an introduction without verifying the introducer's actual standing. The claims of the introducer being a "leading merchant" were false, a fact the bank could have discovered. This demonstrates that a mere introduction is insufficient; the banker has a duty to assess the reliability of the reference to act prudently.

Oct/Nov 2009

13. A new customer, 'D', is introduced to Bank A by an existing customer. D wants to open an account to deposit a high-value draft. The manager of Bank A does not question D about his business or creditworthiness and opens the account. The draft later turns out to be materially altered. Based on the Indian Bank vs Catholic Syrian Bank case, Bank A is likely negligent because it:
(A) Failed to contact the paying bank before collection.
(B) Allowed a high-value draft to be the first credit in the account.
(C) Did not independently question the new customer before opening the account.
(D) Did not take a photograph of the new customer D.

Ans :

(C) Did not independently question the new customer before opening the account.
The High Court in the cited case observed that the collecting banker was negligent for not independently questioning the new customer about his business and creditworthiness. Relying solely on a superficial introduction without conducting its own due diligence on the new customer was a significant failure, especially when the circumstances warranted greater alertness and scrutiny from the bank manager.

May/June 2023

14. In the Indian Bank vs Catholic Syrian Bank case, arrange the following events in the correct chronological sequence:
1. M obtained a demand draft for ₹20.
2. The altered draft for ₹29,000 was presented by D for collection.
3. Bank A paid a large part of the draft amount to D.
4. The Salem branch of bank B became aware of the correct draft particulars.

(A) 1, 2, 3, 4
(B) 1, 4, 2, 3
(C) 2, 1, 4, 3
(D) 1, 2, 4, 3

Ans :

(A) 1, 2, 3, 4
Following the case details, M first obtained the draft on June 12. D presented the altered draft for collection on June 13. Bank A, the collecting bank, then paid out a significant portion of the funds to D. It was only after this payout, on June 14, that Bank B, the paying bank, discovered the alteration and contacted Bank A.

Oct/Nov 2018

15. In situations where a new branch is opened and existing customers are not available for introduction, what alternative procedure was suggested for bankers to follow?
(A) Obtain references from known persons in the locality or from the customer's existing bankers.
(B) Waive the requirement of introduction altogether for the first year of branch operation.
(C) Accept a sworn self-declaration from the new customer in the presence of a bank officer.
(D) Open the account on a probationary basis for six months with limited transaction capabilities.

Ans :

(A) Obtain references from known persons in the locality or from the customer's existing bankers.

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The text outlines a practical solution for newly opened branches lacking an established customer base for introductions. In such cases, the duty of care required bankers to seek references from other reputable sources, such as well-known local individuals or the customer's previous bankers. The bank would then need to make enquiries with these referees to verify the customer's genuineness.

May/June 2007

16. A new account is opened not with a cash deposit, but with a third-party cheque. The customer, an employee, presents a letter purportedly from his employer authorizing him to deal with the cheque. The bank credits the cheque without contacting the employer. The letter and cheque are later found to be forged and stolen. What is the bank's liability, as per Harding vs London Joint Stock Bank?

(A) The bank is not liable as it reasonably relied on the provided letter of authority.
(B) The bank is liable for negligence for failing to make direct enquiries with the employer.
(C) The bank's liability is reduced because the primary fault lies with the customer who committed forgery.
(D) The bank is protected under statute as it was merely collecting a third-party cheque.

Ans :

(B) The bank is liable for negligence for failing to make direct enquiries with the employer.
This scenario matches the Harding vs London Joint Stock Bank case. The court held the bank negligent because it failed to take the crucial step of verifying the authority directly with the employer. Simply accepting a letter produced by the employee, especially under the unusual circumstance of opening an account with a third-party cheque, was a breach of prudent banking practice.

Oct/Nov 2025

17. Under modern KYC norms as per the Prevention of Money Laundering Act (PMLA) and RBI directions, which traditional practice for account opening has been rendered redundant and dispensed with?

(A) Obtaining a photograph of the customer
(B) Obtaining an 'introduction' from an existing customer
(C) Verifying the address of the customer
(D) Obtaining the PAN number of the customer

Ans :

(B) Obtaining an 'introduction' from an existing customer
The text explicitly states that with the advent of robust KYC norms, the practice of obtaining an 'introduction' has been rendered redundant and is now dispensed with. The focus has shifted to verification through officially valid documents (OVD), PAN, and other documentary evidence of identity and address, making the older, less reliable system of personal introductions unnecessary for due diligence.

May/June 2012

18. According to the duty to follow KYC norms, which of the following is generally NOT an acceptable document for address verification?

(A) A self-declaration of address signed by the customer
(B) A latest copy of an electricity bill
(C) A latest copy of a telephone bill
(D) An Officially Valid Document (OVD) containing the address

Ans :

(A) A self-declaration of address signed by the customer
While KYC norms are comprehensive, a simple self-declaration of address is typically insufficient on its own for a standard account. The rules require verifiable, third-party documents like utility bills (electricity, telephone) or other officially recognized documents to evidence the customer's address. The waiver for such requirements is generally applicable only for specific categories like small accounts with limitations.

Oct/Nov 2014

19. What is the duty of a collecting banker if a cheque presented for collection is crossed specially to another bank?

(A) Collect the cheque after obtaining an indemnity from the customer.
(B) Credit the proceeds to a suspense account pending clarification.
(C) Refuse to collect the cheque.
(D) Convert the special crossing to a general crossing and then collect it.

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Ans :

(C) Refuse to collect the cheque.

A special crossing directs the paying banker to pay the cheque only to the bank named in the crossing. Therefore, if a cheque is presented for collection to a bank that is not the one named in the special crossing, the collecting banker's duty is to refuse collection. Proceeding otherwise would be a clear violation of the drawer's mandate.

May/June 2019

20. Assertion (A): A collecting banker cannot be held negligent merely for collecting a cheque bearing a 'non-negotiable' crossing.

Reason (R): The presence of a 'non-negotiable' crossing is only one of the factors to be considered when deciding about a banker's negligence.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

As established in Crumpling vs London Joint Stock Bank Ltd., the mere act of collecting a 'non-negotiable' crossed cheque is not, by itself, proof of negligence. The assertion is true. The reason is also true and correctly explains why; the court considers it as one of several factors in the overall context to determine if the banker acted without due care.

Oct/Nov 2006

21. What is the primary implication of the "Duty to Verify the Instruments for any Apparent Defect"?

(A) The banker must use forensic tools to check for invisible alterations.

(B) The banker must confirm the availability of funds with the paying bank before collection.

(C) The banker must be alert to any feature on the instrument that suggests a breach of trust or misappropriation.

(D) The banker must verify the drawer's signature on every cheque collected.

Ans :

(C) The banker must be alert to any feature on the instrument that suggests a breach of trust or misappropriation.

This duty requires the banker to exercise the prudence of an ordinary person, not a forensic expert. It means heeding warning signs visible on the face of the instrument itself. For instance, a cheque payable to a company being endorsed into a personal account should act as a red flag, suggesting potential misappropriation that warrants further enquiry.

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May/June 2021

22. A managing director of 'ABC Ltd.' frequently deposits a large number of cheques payable to the company into his personal account at Bank Z. The bank does not make any enquiries about his authority to do so. If the MD was misappropriating funds, what is the likely legal position of Bank Z, based on Underwood Ltd. vs Bank of Liverpool Martin Ltd.?

(A) Bank Z is protected as the MD is an authorized signatory with apparent authority.

(B) Bank Z is negligent for not enquiring whether the director was entitled to deposit these amounts personally.

(C) Bank Z is not liable as it is the MD's internal responsibility to manage company funds properly.

(D) Bank Z's liability is limited to only those cheques which are above a certain pre-defined value.

Ans :

(B) Bank Z is negligent for not enquiring whether the director was entitled to deposit these amounts personally.

This scenario is a direct application of the principle from the Underwood Ltd. case. The act of a company official depositing cheques payable to the company into their personal account is highly irregular and should have put the bank on enquiry. The bank's failure to question the director's authority for such transactions constitutes clear negligence, removing statutory protection.

Oct/Nov 2010

23. "Two dishonest clerks of a stock broker stole bearer cheques belonging to their employer, and were collected in an accounts of one of the clerks, and of his wife. It was held that the bank had been negligent in opening the clerk's account in as much as they did not obtain his employer's name and in the case of his wife's account it did

(D) Statement I is incorrect, but Statement II is correct.

Ans :

(D) Statement I is incorrect, but Statement II is correct.
Statutory protection under Section 131 is conditional, not absolute. The absence of negligence is a fundamental prerequisite. Therefore, Statement I is incorrect. Statement II correctly identifies that the burden of proof is on the banker to demonstrate that it acted in good faith and without negligence, which is a core condition for availing the protection.

Oct/Nov 2005

47. Which of the following scenarios best illustrates the "Duty to take into Account the State of Customer's Account"?
(A) A bank officer becomes suspicious when a clerk with a small salary deposits a high-value cheque.
(B) A bank manager personally greets a high-net-worth customer.
(C) A bank teller questions a large cash deposit from a regular business customer.
(D) A bank automatically sends an alert for any transaction above ₹50,000.

Ans :

(A) A bank officer becomes suspicious when a clerk with a small salary deposits a high-value cheque.
This duty is about contextual analysis. The scenario of a clerk, whose salary and financial standing are approximately known to the bank, suddenly depositing a large cheque is a classic example. This transaction is inconsistent with the customer's known profile and should trigger suspicion and enquiry from a prudent banker, fulfilling this specific duty of care.

May/June 2020

48. In the case of Ross vs London County Westminster and Parrs Bank Ltd., what was the instruction on the cheques regarding their negotiability?
(A) They were marked 'Not Negotiable'.
(B) There was an instruction that it was negotiable by the concerned officer.
(C) They were marked 'Account Payee Only'.
(D) There was no specific instruction regarding negotiability.

Ans :

(B) There was an instruction that it was negotiable by the concerned officer.
The case details specify that despite the cheques being payable to an official designation, there was an instruction that they were negotiable by the concerned officer. However, the court held that this did not absolve the bank. The official nature of the payee itself was a sufficient red flag that required the bank to make an enquiry.

Oct/Nov 2011

49. The legal principle established in the case Australia and New Zealand Bank vs Ateliers de Constructions Electriques de Cherleroi demonstrates that:
(A) Negligence by a banker automatically results in liability.
(B) The existence of implied authority from the principal can be a valid defense for a banker.
(C) A principal can retroactively authorize an agent's actions.
(D) Collecting bankers are not responsible for the actions of agents.

Ans :

(B) The existence of implied authority from the principal can be a valid defense for a banker.
This case is a crucial exception to the general rule. The bank, though technically negligent, was absolved of liability because the court found that the principal had given the agent implied authority for the transaction. This shows that if the customer (principal) has authorized the very act in question, the bank may escape liability for conversion.

May/June 2025

50. Which of the following were key elements of negligence identified in the Syndicate Bank vs Jaishree Industries case?
1. Opening an account for a limited company as a proprietary concern.
2. Failing to scrutinise the memorandum of association or resolution.
3. Not noticing the word 'Ltd.' in the company's name.
4. The introducer's shop being located far from the bank.
(A) 1 and 2 only
(B) 1, 2, and 3 only
(C) 3 and 4 only

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customer's known circumstances and warrant enquiry by a prudent banker to avoid being an accessory to fraud.

Oct/Nov 2007

27. "The secretary opened the accounts in the defendant's bank in a false name and as reference gave his real name. The bank thereupon called the reference and got a satisfactory reply... The secretary presented nine cheques totally aggregating to £4855... The Court held that the collecting bank was negligent as it did not take necessary precautions, because the amounts collected were inconsistent with the business of the account holder..."
Based on this excerpt from Nu-Stilo Footwear Ltd. vs Lloyds Bank Ltd., why was the bank found negligent despite verifying the reference?
(A) Because the reference provided a false name.
(B) Because the account was opened in a false name.
(C) Because the bank failed to meet the secretary in person.
(D) Because the amount of the cheques was inconsistent with the customer's stated business.

Ans :

(D) Because the amount of the cheques was inconsistent with the customer's stated business.
The source highlights that even though the bank followed the procedure of checking the reference, it was still found negligent. The crucial failure was not connecting the dots; the large aggregate amount of the cheques (£4855) was completely out of character for the purported business of the new account holder, which should have prompted further, more detailed enquiries.

May/June 2018

28. In the case of Nu-Stilo Footwear Ltd. vs Lloyds Bank Ltd., what was the total aggregate amount of the nine cheques presented by the fraudulent secretary?
(A) £192.57
(B) £4855
(C) £29,000
(D) ₹2,51,125

Ans :

(B) £4855
The case details explicitly mention the specifics of the fraud perpetrated by the company's secretary. He presented a total of nine cheques for collection into the fraudulently opened account, and the sum of these cheques aggregated to £4855. This large amount was a key factor in the court's decision, as it was inconsistent with the customer's profile.

Oct/Nov 2019

29. What is the general duty of a collecting bank when a customer presents a third-party cheque for collection, i.e., a cheque not drawn in the customer's favour?
(A) Immediately refuse to collect the cheque as it is prohibited.
(B) Collect the cheque without question as long as it is endorsed by the customer.
(C) Make necessary enquiries before collecting the cheque on behalf of the customer.
(D) Insist that the cheque be deposited only into the payee's account.

Ans :

(C) Make necessary enquiries before collecting the cheque on behalf of the customer.
Collecting a third-party cheque is not prohibited, but it carries a higher risk and thus requires greater diligence from the banker. The banker has a duty to make reasonable and necessary enquiries to satisfy themselves that the customer has a legitimate title to the cheque. Failure to make such enquiries can lead to a finding of negligence.

May/June 2009

30. "Cheques payable to 'the Officer in charge, Estate Office, Canadian Overseas Military Force' were used by an individual to pay off his debts. There was an instruction in all the cheques that it was negotiable by the concerned officer. However, it was held that the fact that the cheques were drawn in favour of the officer in charge should have put the banker on enquiry..."
Based on the Ross vs London County Westminster and Parrs Bank Ltd. case, what specific feature of the cheques should have alerted the banker?
(A) The cheques were for a large, unusual amount.
(B) The cheques were post-dated.
(C) The cheques were bearer cheques.
(D) The specific and official designation of the payee.

not obtain the husband's occupation and his employer's name."
Based on this excerpt from Savory Company vs Lloyds Bank, what specific information did the bank fail to obtain, leading to the finding of negligence?
(A) The permanent address of the clerks.
(B) A letter of consent from the stock broker.
(C) The previous banking history of the clerk and his wife.
(D) The name of the employer for both the clerk's and his wife's accounts.

Ans :

(D) The name of the employer for both the clerk's and his wife's accounts.
The source text explicitly points out the bank's specific omissions. For the clerk's account, the bank failed to get his employer's name. For his wife's account, it failed to obtain her husband's occupation and, crucially, his employer's name. This information would have helped the bank connect the customers to the source of the cheques, raising suspicion.

May/June 2005

24. Identify the correct pair of case law and the principle it established regarding a collecting banker's liability.
(A) Morrison vs London County and Westminster Bank Ltd. - Collecting cheques drawn 'per pro' payable to the signing agent for his private account without enquiry is negligence.
(B) Australia and New Zealand Bank vs Ateliers... - A bank is always held liable for conversion when an agent deposits a principal's cheque into a personal account.
(C) Ladbroke vs Todd - Opening an account with a third-party cheque, rather than cash, is conclusive proof of a bank's negligence.
(D) Savory Company vs Lloyds Bank - The act of collecting bearer cheques for a customer can never constitute an act of negligence for a bank.

Ans :

(A) Morrison vs London County and Westminster Bank Ltd. - Collecting cheques drawn 'per pro' payable to the signing agent for his private account without enquiry is negligence.
The Morrison case is correctly paired with its principle. A 'per pro' signature acts as an explicit notice that the agent has limited authority. When such a cheque is made payable to the agent himself and deposited in his personal account, it is a major red flag, and the bank's failure to make enquiries constitutes negligence.

Oct/Nov 2016

25. In which of the following cases did the collecting bank escape liability despite an agent depositing his principal's cheque into his personal account?
(A) Underwood Ltd. vs Bank of Liverpool Martin Ltd.
(B) Morrison vs London County and Westminster Bank Ltd.
(C) Australia and New Zealand Bank vs Ateliers de Constructions Electriques de Cherleroi
(D) Savory Company vs Lloyds Bank

Ans :

(C) Australia and New Zealand Bank vs Ateliers de Constructions Electriques de Cherleroi
This case represents a notable exception. Although the bank was considered negligent for not having specific authority, it escaped liability for conversion. This was because it was later found that the principal had, in fact, given the agent implied authority to use his private account for such transactions, thus validating the agent's actions and protecting the bank.

May/June 2016

26. The "Duty to take into Account the State of Customer's Account" primarily requires the banker to monitor for what kind of activity?
(A) Transactions that are inconsistent with the known status and occupation of the customer.
(B) Frequent withdrawals of small amounts of cash that fall just below reporting thresholds.
(C) The customer consistently maintaining a very low or zero average daily balance.
(D) The customer not using the issued cheque book for an unusually long period of time.

Ans :

(A) Transactions that are inconsistent with the known status and occupation of the customer.
This duty obligates the banker to be vigilant about the customer's financial activities in the context of their known profile. For example, if a low-salaried employee starts depositing large-value cheques regularly, it should trigger suspicion. Such transactions are inconsistent with the

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As indicated in the 'Check Your Progress' section, upon receiving notice of a lost cheque, the banker's primary duty is to be on alert. This means exercising enhanced caution and due diligence. This could involve stopping the collection process, placing a hold on the funds if already collected, and making further enquiries to prevent proceeds from reaching the wrong hands.

Oct/Nov 2020

35. The absence of proper KYC documentation during account opening makes a collecting banker liable for collecting a fraudulent cheque primarily on the grounds of what?
(A) Connivance
(B) Crime
(C) Negligence
(D) Arrogance

Ans :

(C) Negligence
Failure to adhere to KYC norms is a primary example of negligence in the account opening process. By not verifying the customer's identity and address properly, the bank fails in its duty of care. This initial negligence makes it possible for fraud to occur, and if the bank subsequently collects a fraudulent cheque, it cannot claim statutory protection.

May/June 2022

36. Match the legal case in List-I with the key principle of negligence it highlights in List-II.

	List-I (Case)		**List-II (Principle of Negligence)**
P.	Ladbroke vs Todd	1.	Collecting company cheques into a director's personal account.
Q.	Underwood Ltd. vs Bank of Liverpool	2.	Opening an account for a new customer without any reference.
R.	Indian Bank vs Catholic Syrian Bank	3.	Relying on an introduction without verifying the introducer's standing.
S.	Morrison vs London County... Bank	4.	Collecting 'per pro' cheques payable to the agent for his personal account.

(A) P-2, Q-1, R-3, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-2, Q-3, R-1, S-4
(D) P-3, Q-4, R-2, S-1

Ans :

(A) P-2, Q-1, R-3, S-4
Ladbroke vs Todd established negligence for opening an account without reference. Underwood Ltd. dealt with a director depositing company cheques into his private account. Indian Bank vs Catholic Syrian Bank highlighted negligence in not verifying an introducer's credentials. Morrison focused on the risk of 'per pro' cheques being credited to the agent's personal account without enquiry.

Oct/Nov 2023

37. Consider the following duties of a collecting bank:
1. Duty to follow KYC norms under PMLA.
2. Duty to ensure the cheque has a valid 'non-negotiable' crossing.
3. Duty to take into account the state of the customer's account.

Which of the above are considered duties of a collecting banker to avoid negligence?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(C) 1 and 3 only
Following KYC norms is a fundamental duty. Monitoring the customer's account for transactions inconsistent with their profile is also a key duty. However, ensuring a cheque has a 'non-negotiable' crossing is not a duty; rather, the bank must know how to act when such a crossing is present. The duty is to handle all crossings appropriately.

NODIA

May/June 2017

38. Identify the incorrect pairing of a duty and its description.
(A) Duty to Confirm Reference - Make enquiries with the referee about the genuineness of the person opening the account.
(B) Duty to Verify Instruments - Use ultraviolet light to check for invisible ink forgeries on all cheques.

Ans :

(D) The specific and official designation of the payee.
The source clearly indicates that the payee was not a named individual but an official designation: 'the Officer in charge...'. This should have immediately warned the banker that the funds were intended for an official purpose or a specific office, not for an individual's personal use to pay off private debts. This was a clear red flag.

Oct/Nov 2013

31. Statement I: The duties of a collecting banker are explicitly listed in a dedicated chapter of the Banking Regulation Act, 1949.
Statement II: The determination of a collecting banker's negligence is often based on case law and the conditions laid down in Section 131 of the NI Act.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Ans :

(D) Statement I is incorrect, but Statement II is correct.
The chapter summary explicitly states there are no specific provisions laying down the duties of a collecting banker. Therefore, Statement I is incorrect. The duties are instead derived from the conditions for protection in Section 131 (acting without negligence) and the principles established through various court cases, making Statement II correct.

May/June 2015

32. In the context of a collecting banker's liability, what does the term 'Conversion' refer to?
(A) The physical process of converting a bearer cheque to an order cheque by adding a payee's name.
(B) An act of wrongfully dealing with an instrument in a manner inconsistent with the true owner's rights.
(C) The banking process of exchanging a foreign currency cheque into the equivalent local currency value.
(D) The technical process of electronic truncation of a physical cheque for faster clearing (CTS).

Ans :

(B) An act of wrongfully dealing with an instrument in a manner inconsistent with the true owner's rights.
Conversion is a legal tort. In banking, it refers to the unauthorized act of dealing with a cheque as one's own, such as collecting it for someone who is not the rightful owner. The collecting banker can be sued for conversion by the true owner, and Section 131 provides a statutory defense against this claim if certain conditions are met.

Oct/Nov 2012

33. Which section of the Negotiable Instruments Act, not mentioned in the main body but present in the 'Check Your Progress' section, specifically extends protection to a banker collecting a draft?
(A) Section 131
(B) Section 131A
(C) Section 138
(D) Section 85

Ans :

(B) Section 131A
While Section 131 is the primary provision for protecting the collecting banker regarding cheques, the 'Check Your Progress' section highlights Section 131A. This specific section of the Negotiable Instruments Act explicitly extends the protection granted under Section 131 to the collection of drafts, ensuring similar safeguards for bankers when handling these instruments for their customers.

May/June 2011

34. If a collecting banker receives information that a cheque deposited for collection has been lost or stolen, what is the most appropriate immediate action for the banker to take?
(A) Exercise due caution while collecting the cheque.
(B) Immediately inform the drawer of the cheque.
(C) Immediately return the cheque to the customer.
(D) Inform the local police department.

Ans :

(A) Exercise due caution while collecting the cheque.

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(C) Not liable, as it is an internal matter of the firm.
(D) Liable, but only if the firm had previously notified the bank of the manager's limited authority.

Ans :

(A) Negligent, for not making enquiries despite the clear warning signs.
This situation directly reflects the Morrison case. The combination of a 'per pro' signature (notice of limited authority) and the cheque being payable to the agent himself is a significant red flag. A prudent banker's duty is to make enquiries to confirm the legitimacy of such a transaction. Failure to do so constitutes clear negligence.

Oct/Nov 2015

43. What is the most critical lesson for a collecting banker from the judgment in Savory Company vs Llyods Bank?
(A) A bank should never open an account for the wife or relative of an existing customer.
(B) Bearer cheques are inherently too risky to be collected and should always be refused.
(C) Bank accounts should only be opened with an initial cash deposit, not with a cheque.
(D) A bank must always obtain comprehensive information during account opening, including details of employment.

Ans :

(D) A bank must always obtain comprehensive information during account opening, including details of employment.
The core of the negligence finding in the Savory case was the bank's failure to gather sufficient information at the account opening stage. Obtaining the employer's name for the clerk and the husband's occupation/employer for the wife's account would have provided context and potentially exposed the fraud. It underscores the importance of a thorough KYC process.

May/June 2008

44. If a cheque is crossed "Account Payee Only" and is presented for credit to an account other than the named payee's, what is the collecting banker's duty?
(A) The banker must credit the proceeds as instructed by the depositor.
(B) The banker should make necessary enquiries before crediting it to another account.
(C) The banker can ignore the crossing as it has no legal standing.
(D) The banker must convert it to a general crossing first.

Ans :

(B) The banker should make necessary enquiries before crediting it to another account.
The text states that crediting a cheque crossed to a specific account to another account without necessary enquiries would make the banker liable for negligence. An "Account Payee" crossing is a strong directive, and while not legally non-transferable, it serves as a serious warning to the collecting bank to exercise extreme caution and make thorough enquiries before diverting the funds.

Oct/Nov 2022

45. In which case was a bank held negligent for not taking necessary precautions when the amounts collected were inconsistent with the stated business of the account holder, who was a company secretary?
(A) Ross vs London County Westminster and Parrs Bank Ltd.
(B) Harding vs London Joint Stock Bank
(C) Nu-Stilo Footwear Ltd. vs Lloyds Bank Ltd.
(D) Syndicate Bank vs Jaishree Industries

Ans :

(C) Nu-Stilo Footwear Ltd. vs Lloyds Bank Ltd.
The case of Nu-Stilo Footwear Ltd. vs Lloyds Bank Ltd. is the specific instance cited where the court found the collecting bank negligent precisely on these grounds. The bank failed to recognize that the large sum of money being deposited was completely out of sync with the customer's professed business, a failure of due diligence.

May/June 2014

46. Statement I: Statutory protection under Section 131 is absolute and protects the banker even in cases of proven negligence.
Statement II: To claim protection, the collecting banker must prove it acted in good faith and without negligence.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.

NODIA

(C) Duty to Ensure Crossing - Refuse to collect a cheque crossed specially to another bank.
(D) Duty to follow KYC Norms - Obtain OVD and PAN number to verify the customer's identity.

Ans :

(B) Duty to Verify Instruments - Use ultraviolet light to check for invisible ink forgeries on all cheques.
The duty to verify for apparent defects requires the banker to exercise ordinary care and diligence, not to act as a forensic expert. The banker is expected to spot defects that are visible on the face of the instrument, not to use specialized equipment like ultraviolet lights to find hidden forgeries, which is beyond the required standard of care.

Oct/Nov 2021

39. Assertion (A): The modern KYC regime under PMLA has made the practice of obtaining an introduction from an existing customer largely redundant.
Reason (R): Verification through Officially Valid Documents (OVD) and PAN provides a more reliable and standardized method of establishing a customer's identity than a personal introduction.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that introductions are now redundant is true, as stated in the text. The reason provided is also true and is the correct logic behind this shift. Regulatory focus has moved to objective, document-based verification (OVD, PAN), which is considered more robust and less subjective than the traditional, and sometimes unreliable, system of personal introductions from other customers.

May/June 2024

40. In the case of Crumpling vs London Joint Stock Bank Ltd., what was the court's view on collecting a cheque with a 'non-negotiable' crossing?
(A) It is a factor to be considered among others in deciding negligence.
(B) It is conclusive evidence of the banker's negligence.
(C) The banker is automatically protected if such a cheque is collected.
(D) The banker must refuse to collect such cheques.

Ans :

(A) It is a factor to be considered among others in deciding negligence.
The judgment in this case clarified the legal standing of the 'non-negotiable' crossing for a collecting banker. The court held that its presence alone does not automatically prove negligence. Instead, it is one piece of the puzzle that the court will consider along with all other circumstances of the transaction to determine if the banker acted with due care.

Oct/Nov 2008

41. A 'per pro' (per procurationem) signature on a cheque serves as a notice to the collecting banker that the person signing has what?
(A) Unlimited authority
(B) The authority of the owner
(C) Limited authority
(D) No authority at all

Ans :

(C) Limited authority
A 'per pro' signature is a clear indication that the signatory is acting as an agent and possesses only a specific, limited authority to sign on behalf of the principal. This puts the collecting banker on notice, requiring them to be vigilant, especially if the agent appears to be using this authority for their personal benefit.

May/June 2013

42. A manager of a firm, who is authorized to draw cheques 'per pro' the firm, draws a cheque payable to himself and deposits it into his personal bank account. The collecting bank credits the amount without any questions. Based on the precedent in Morrison vs London County and Westminster Bank Ltd., the bank is:
(A) Negligent, for not making enquiries despite the clear warning signs.
(B) Protected, as the manager was an authorized signatory.

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(D) 1, 2, 3 and 4

Ans :

(B) 1, 2, and 3 only
The High Court's judgment focused on the bank's failures related to the corporate status of the account holder. This included treating a 'Ltd.' company as a proprietorship, not checking incorporation documents like the memorandum, and overlooking the 'Ltd.' suffix. The introducer's shop was actually just opposite the bank, so statement 4 is factually incorrect based on the case description.

Oct/Nov 2017

51. What was the original value of the demand draft before it was fraudulently altered to ₹29,000 in the Indian Bank vs Catholic Syrian Bank case?
(A) ₹200
(B) ₹2,000
(C) ₹20
(D) ₹290

Ans :

(C) ₹20
The case summary explicitly states the details of the fraudulent alteration. A demand draft was originally obtained by 'M' from the Singanallur branch for the small sum of ₹20. This draft was then materially altered to appear as if it were for the much larger amount of ₹29,000 before being presented for collection by 'D'.

May/June 2006

52. What does the term 'Non-negotiable crossing' on a cheque signify?
(A) The cheque is rendered completely non-transferable and can only be paid to the original payee.
(B) The cheque can only be paid in cash over the counter and not through a bank account.
(C) The cheque becomes invalid and cannot be legally collected by any bank or person.
(D) The transferee of the cheque cannot have a better title than that of the transferor.

Ans :

(D) The transferee of the cheque cannot have a better title than that of the transferor.
A 'non-negotiable' crossing does not stop the transferability of a cheque. Its legal effect is to remove one of the key characteristics of negotiability. It means that any person who takes the cheque (the transferee) receives it subject to any defects in the title of the person they got it from (the transferor), just like any ordinary chattel.

Oct/Nov 2024

53. Regarding the duties of a collecting banker, which of the following statements is incorrect based on the provided text?
(A) A banker must refuse to collect a cheque crossed specially to another bank.
(B) A banker can be held negligent for not questioning transactions inconsistent with a customer's known status.
(C) A banker must obtain an introduction for all new accounts, including small accounts.
(D) A banker has a duty to verify instruments for apparent defects that may indicate a breach of trust.

Ans :

(C) A banker must obtain an introduction for all new accounts, including small accounts.
The text explicitly states that the requirement of 'introduction' has been rendered redundant and dispensed with under modern KYC norms. Furthermore, for small accounts, certain documentation requirements (like address proof) may even be waived. Therefore, mandating an introduction for all accounts is an incorrect statement of the current duty of a banker.

May/June 2010

54. The overall principle governing the responsibility of a collecting bank, as derived from Section 131 and various court cases, is best summarized as:
(A) A standard of strict liability for any and all loss that is caused to the true owner of the instrument.
(B) The duty to act as a prudent businessman, exercising reasonable care and diligence in all transactions.
(C) A contractual duty to follow the customer's instructions at all costs, regardless of circumstances.
(D) A high-level fiduciary duty to always maximize the customer's financial returns and interests.

Ans :

(B) The duty to act as a prudent businessman, exercising reasonable care and diligence in all transactions.

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The recurring theme throughout all the cases and the interpretation of Section 131 is the standard of the 'prudent' or 'reasonable' banker. The law does not impose strict liability but instead asks whether the bank acted with the level of care and diligence that a reasonable person of business would in similar circumstances, which is the essence of avoiding negligence.

Oct/Nov 2009

55. Statement I: In Harding vs London Joint Stock Bank, the bank was held negligent for opening an account with a third-party cheque and not verifying the customer's authority with his employer.
Statement II: In Ladbroke vs Todd, the bank was held negligent for opening an account for a thief without obtaining any reference.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Ans :

(A) Both Statement I and Statement II are correct.
Both statements accurately summarize the key facts and outcomes of their respective cases as described in the text. The Harding case focused on the failure to verify authority when an account was opened with a third-party cheque. The Ladbroke case centered on the negligence of opening an account for a complete stranger without seeking any form of reference.

May/June 2023

56. Match the term in List-I with its most relevant description in List-II based on the chapter content.

	List-I (Term)		**List-II (Description)**
P.	Section 131	1.	KYC requirement to verify customer identity and address
Q.	OVD / PAN	2.	A crossing that limits the title of the transferee.
R.	Per Pro Signature	3.	Statutory protection for a collecting banker acting without negligence.
S.	Non-negotiable Crossing	4.	A signature indicating the signatory has limited authority as an agent.

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-2, R-4, S-1
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-3, Q-1, R-4, S-2
Section 131 provides statutory protection to the collecting banker. OVD/PAN are key documents for KYC compliance. A 'per pro' signature serves as a notice of an agent's limited authority. A 'non-negotiable' crossing restricts the title of the holder, who cannot get a better title than the person from whom they received the instrument.

Oct/Nov 2018

57. Assertion (A): A collecting bank was held liable in the Ross case for collecting a cheque payable to 'the Officer in charge, Estate Office...' for an individual's private debt.
Reason (R): The specific, official designation of the payee should have served as a clear warning to the bank that the funds were not intended for personal use.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion correctly states the outcome of the Ross case. The reason accurately explains the legal logic behind the decision. The impersonal and official nature of the payee's description was a significant red flag. It strongly implied the funds were for official purposes, and the bank's failure to enquire before allowing personal use constituted negligence.

NODIA

May/June 2007

58. Consider the following scenarios. In which of these was the collecting bank found to be negligent?

1. An agent deposited his principal's cheque into his personal account, where it was found the principal had given implied authority for this practice. (Australia and New Zealand Bank)
2. A company secretary opened an account in a false name and deposited company cheques of a value inconsistent with the account's stated purpose. (Nu-Stilo Footwear)
3. A manager with 'per pro' authority drew cheques payable to himself and deposited them into his private account without the bank making any enquiry. (Morrison)

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(B) 2 and 3 only
The bank was found negligent in the Nu-Stilo Footwear case due to the inconsistency of the transaction amount and in the Morrison case due to the un-questioned collection of a 'per pro' cheque for personal benefit. In the Australia and New Zealand Bank case, the bank was uniquely absolved of liability because of the principal's implied authority.

Oct/Nov 2025

59. "The collecting banker is required to take into account the status of the customer and various transactions that took place in the customer's account to know the circumstances and the standard of living of the customer. If for example, a person is an employee as a clerk, his salary would be approximately known to the bank and any substantial credits by way of collection of cheques would be suspected..."
Based on this principle, in which situation would a collecting banker be most likely considered negligent?

(A) A wealthy industrialist deposits a cheque for ₹5,00,000 into his current account.
(B) A salaried school teacher, with a monthly income of ₹40,000, deposits a cheque for ₹25,00,000 from a property sale after providing documents.
(C) A retail shop owner deposits daily cash sales of varying amounts into his business account.
(D) A college student with no declared income deposits a series of third-party cheques amounting to ₹10,00,000 over two weeks.

Ans :

(D) A college student with no declared income deposits a series of third-party cheques amounting to ₹10,00,000 over two weeks.
This scenario directly triggers the warning described in the source. A college student with no known source of income receiving substantial credits through a series of third-party cheques is a transaction highly inconsistent with the customer's known status. A prudent banker would suspect potential fraud or money laundering and would be negligent if no enquiries were made.

May/June 2012

60. A bank opens an account for 'XYZ Industries Ltd.' but uses the account opening form for a proprietorship firm at the request of the 'proprietor'. The bank staff do not verify the company's incorporation documents. Later, a draft worth ₹2,51,125 payable to 'XYZ Industries Ltd.' is collected and credited to this account, and the funds are withdrawn. Based on Syndicate Bank vs Jaishree Industries, the bank will be:

(A) Protected under Sec. 131 as it acted for a customer.
(B) Found negligent for failing to follow the proper procedure for a limited company account.
(C) Absolved, as the fault lies with the 'proprietor' who provided wrong information.
(D) Liable only for a portion of the amount as the paying bank also has a duty.

Ans :

(B) Found negligent for failing to follow the proper procedure for a limited company account. This case is a direct application of the Syndicate Bank precedent. The bank's primary failure was in the account opening process itself—ignoring the 'Ltd.' status and failing to obtain and scrutinize the necessary corporate documents like the Memorandum and Articles of Association. This fundamental negligence at the outset disqualifies the bank from claiming statutory protection for the subsequent wrongful collection.

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(C) It is designated by the State Government to deal with the leader bank for all schemes.
(D) It is responsible for sharing revenue with participating banks.

Ans :

(C) It is designated by the State Government to deal with the leader bank for all schemes.
Within the EBT scheme model, a Nodal Department is designated in the State Government. Its specific role is to act as the single point of contact and deal with the designated leader bank for all covered welfare schemes, providing the list of beneficiaries and transferring the consolidated funds for onward distribution to participating banks.

May/June 2015

20. What is the legal relationship between a bank and a customer who hires a safe deposit locker?
(A) Debtor and Creditor
(B) Principal and Agent
(C) Trustee and Beneficiary
(D) Lessor and Lessee or Bailor and Bailee

Ans :

(D) Lessor and Lessee or Bailor and Bailee
The relationship between the bank (which provides the locker) and the hirer of the locker is that of a "Lessor and Lessee" or "Bailor and Bailee". The bank acts as the lessor renting out space, and the customer is the lessee. This defines the legal framework for their respective rights and obligations.

Oct/Nov 2012

21. What is the correct sequence of key operation for opening a safe deposit locker that has dual control?
(A) The hirer's key is operated first, then the bank's master key.
(B) Both keys must be operated simultaneously by the hirer and custodian.
(C) The bank's master key (custodian key) is operated first, then the hirer's key.
(D) Either key can be operated first, depending on the locker model.

Ans :

(C) The bank's master key (custodian key) is operated first, then the hirer's key.
Lockers with dual control require a specific sequence for opening. For opening the locker, the custodian key (the bank's master key) is operated first. Only after the custodian key has been used can the customer operate their key to unlock and open the locker, ensuring a two-step security process.

May/June 2011

22. As per the RBI's revised guidelines of August 2021, which of the following is a key requirement before hiring out a locker?
(A) The customer must purchase a life insurance policy from the bank.
(B) An agreement must be signed prohibiting the storage of illegal or hazardous substances.
(C) The customer must have a minimum fixed deposit of ₹5 lakh with the branch.
(D) The locker can only be hired by individuals, not firms or companies.

Ans :

(B) An agreement must be signed prohibiting the storage of illegal or hazardous substances.
The guidelines mandate a hire agreement which should include a specific clause prohibiting the storage of illegal or hazardous substances. This clause also gives the bank the right to take appropriate action if it suspects such materials are being stored, forming a critical part of the terms and conditions of the locker facility.

Oct/Nov 2020

23. The model locker agreement to be adopted by banks should be in conformity with the directions of the Hon'ble Supreme Court in which landmark case?
(A) Maneka Gandhi Vs. Union of India
(B) Kesavananda Bharati Vs. State of Kerala
(C) Lily Thomas Vs. Union of India
(D) Amitabha Dasgupta Vs. United Bank of India & Others

Ans :

(D) Amitabha Dasgupta Vs. United Bank of India & Others
Banks may adopt the model locker agreement framed by the Indian Banks' Association (IBA), and it must comply with the directions issued by the Hon'ble Supreme Court in the case of Amitabha Dasgupta Vs. United Bank of India & Others. This ruling has significantly shaped the liability and responsibility of banks.

NODIA

Reserve Bank of India Act, 1934, which grants the RBI the sole right to issue bank notes.

Oct/Nov 2016

5. For which of the following purposes are Banker's Cheques (BCs) generally NOT used?
(A) Making local payments at the request of a client
(B) Paying the balance amount of a deceased's account to legal heirs
(C) Remitting funds to a beneficiary in another city
(D) Paying statutory dues like electricity bills on behalf of the bank

Ans :

(C) Remitting funds to a beneficiary in another city
Banker's Cheques are specifically intended for making local payments within the same city. For remitting funds from one centre to another, instruments like Demand Drafts (DDs) or electronic methods such as NEFT and RTGS are used. The primary utility of a BC is for secure, guaranteed local payments, not for inter-city fund transfers.

May/June 2005

6. What is the regulatory requirement for issuing a Demand Draft (DD) or Banker's Cheque (BC) for an amount of ₹50,000 and above?
(A) It must be paid in cash across the counter.
(B) It must be processed through banking channels and not in cash.
(C) It can only be issued to existing bank customers.
(D) It requires prior approval from the branch manager.

Ans :

(B) It must be processed through banking channels and not in cash.
To comply with Income Tax provisions and Prevention of Money Laundering Rules (PMLR), the issuance of a DD or BC for ₹50,000 or more must be done through banking channels. This means the payment for the draft must come from the customer's account or by cheque, not through a cash transaction across the counter.

Oct/Nov 2019

7. A DD or BC for an amount of ₹20,000 or more must be issued with what specific feature?
(A) It must be signed by two bank officials.
(B) It must be revalidated every month.
(C) It must be payable in cash only.
(D) It must be issued with an 'account payee' crossing.

Ans :

(D) It must be issued with an 'account payee' crossing.
To ensure that the proceeds are credited to a bank account and to prevent fraudulent encashment, regulations mandate that DDs and BCs for amounts of ₹20,000 and above should be issued with an 'account payee' crossing. This restricts the payment to be credited only to the account of the named payee, enhancing security.

May/June 2013

8. What is the standard validity period for a Demand Draft or Banker's Cheque from its date of issue?
(A) Three months
(B) One month
(C) Six months
(D) One year

Ans :

(A) Three months
Banker's Cheques and Demand Drafts are valid for a period of three months from their date of issue. After this period, the instrument becomes stale and cannot be paid. It can, however, be revalidated by the issuing branch, subject to certain conditions, before it is ultimately cancelled after one year.

Oct/Nov 2021

9. Under what condition can a Demand Draft be revalidated by the issuing branch?
(A) It can be revalidated multiple times within two years of its issue.
(B) It can be revalidated by any branch of the bank with proper authorization.
(C) It can be revalidated only once and within one year from the date of issue.
(D) It can be revalidated only if the amount is below ₹20,000.

Ans :

(C) It can be revalidated only once and within one year from the date of issue.
A Demand Draft that has passed its initial three-month validity can be revalidated. However, this revalidation is permitted only once. Furthermore,

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the request for revalidation must be made within one year from the original date of issue of the draft. After one year, the instrument is cancelled and cannot be revalidated or paid.

May/June 2009

10. To obtain a duplicate DD/BC, the RBI has stipulated that banks must issue it within a specific timeframe to avoid paying compensatory interest. What is this timeframe?
(A) A fortnight (14 days)
(B) One week
(C) 21 days
(D) One month

Ans :

(A) A fortnight (14 days)
The Reserve Bank of India has advised that a duplicate DD/BC in lieu of a lost instrument should be issued within a fortnight. If the bank delays the issuance beyond this stipulated period, it is liable to pay interest at the rate applicable for a fixed deposit of corresponding maturity to compensate the customer.

Oct/Nov 2011

11. In which of the following scenarios is a bank NOT required to pay compensatory interest for a delay in issuing a duplicate DD/BC?
(A) When the request is made by the purchaser.
(B) When the request is made by the beneficiary.
(C) When the original DD/BC was not crossed 'account payee'.
(D) When the request is made by a third-party holder.

Ans :

(D) When the request is made by a third-party holder.
The provision for paying compensatory interest for delays beyond a fortnight in issuing a duplicate instrument applies only when the request has been made by the original purchaser or the named beneficiary. The payment of interest for such a delay would not be applicable in the case of third-party holders.

May/June 2017

12. Which of the following statements accurately describes the National Electronic Funds Transfer (NEFT) system?
(A) It operates on a real-time gross settlement basis for all transactions.
(B) It was launched in November 2005 and operates on a deferred net settlement basis.
(C) It has a minimum transaction limit of ₹2 lakh and no upper limit.
(D) It is primarily used for fund transfers to Nepal and does not require an IFSC.

Ans :

(B) It was launched in November 2005 and operates on a deferred net settlement basis.
NEFT, operational since November 2005, is a nationwide system that functions on a Deferred Net Settlement (DNS) basis. This means transactions are processed in batches at specific intervals. It is distinct from RTGS, which settles transactions individually and in real-time. NEFT has no minimum or maximum transaction limit and uses IFSC for routing.

Oct/Nov 2005

13. Which of the following is NOT listed as a significant benefit of the NEFT system?
(A) Assured payment to the beneficiary
(B) No formalities for refund in case of non-credit
(C) Guaranteed credit to the beneficiary account within 30 minutes
(D) Facilitation of recurring payments like utility bills and loan instalments

Ans :

(C) Guaranteed credit to the beneficiary account within 30 minutes
While NEFT is an efficient funds transfer system, the 30-minute credit guarantee is a feature of the Real Time Gross Settlement (RTGS) system. NEFT operates in batches, and credit to the beneficiary's account typically happens within a few hours. The other listed benefits—assured payment, no-formality refunds, and facilitation of recurring payments—are all correct for NEFT.

May/June 2024

14. What are the defining characteristics of the Real Time Gross Settlement (RTGS) system?
(A) Transactions are settled in batches on a net basis.
(B) It has a minimum transaction limit of ₹20,000 and a maximum of ₹10 lakh.
(C) It is available only during normal banking hours on weekdays.
(D) Instructions are processed continuously and settled individually on a 'gross' basis.

NODIA

Ans :

(D) Instructions are processed continuously and settled individually on a 'gross' basis.
RTGS is an electronic payment system where payment instructions are processed on a 'continuous' or 'real-time' basis. Furthermore, they are settled on a 'gross' or 'individual' basis, meaning each transaction is settled one-by-one without being netted against other transactions. This ensures immediate and final settlement of high-value payments.

Oct/Nov 2008

15. What is the minimum transaction amount for an RTGS transaction, and what is the maximum time a receiving bank has to credit the beneficiary's account?
(A) Minimum ₹2 lakh; Maximum time 30 minutes
(B) Minimum ₹1 lakh; Maximum time 60 minutes
(C) Minimum ₹5 lakh; Maximum time 2 hours
(D) No minimum amount; Maximum time 4 hours

Ans :

(A) Minimum ₹2 lakh; Maximum time 30 minutes
The RTGS system is designed for high-value transactions, with a stipulated minimum amount of ₹2 lakh and no upper ceiling. Once the receiving bank receives the RTGS message, it is mandated to ensure that the beneficiary's account is credited within a maximum of 30 minutes, highlighting the real-time nature of the system.

May/June 2006

16. In an RTGS transaction, the credit is afforded solely based on which piece of information?
(A) Beneficiary's name
(B) Beneficiary's account number
(C) Sender to Receiver Information
(D) Beneficiary's branch address

Ans :

(B) Beneficiary's account number
Credit of RTGS is afforded solely based on the beneficiary's account number. Due to the real-time, automated nature of the transaction execution at the receiving bank, cross-matching the beneficiary's name with the account number is not feasible. This makes the accuracy of the account number critically important for the transaction.

Oct/Nov 2017

17. The Electronic Benefit Transfer (EBT) scheme is primarily a product designed for which major banking initiative?
(A) Portfolio Management
(B) Financial Inclusion
(C) Merchant Banking
(D) Custodial Services

Ans :

(B) Financial Inclusion
The EBT scheme is presented as a product for Financial Inclusion. Its purpose is to facilitate the timely disbursal of government welfare scheme benefits, such as social security pensions and MNREGS wages, directly into the bank accounts of beneficiaries, particularly the poor and those in unbanked areas, thereby promoting greater financial system access.

May/June 2018

18. The EBT scheme, also known as Direct Benefit Transfer (DBT), was commenced under which model?
(A) "One District One Bank" Model
(B) "One State One Bank" Model
(C) "One Village One Bank" Model
(D) "One Beneficiary One Bank" Model

Ans :

(A) "One District One Bank" Model
The implementation of the EBT scheme, referred to as 'Direct Benefit Transfer' (DBT), was initiated for seven schemes under the "One District One Bank" Model. This model was aimed at streamlining the transfer of subsidies and cash benefits directly to beneficiaries through their Aadhaar-seeded bank accounts, with a designated lead bank coordinating efforts in a district.

Oct/Nov 2013

19. In the "one district - many banks - one leader bank model" for EBT, what is the role of the Nodal Department?
(A) It directly credits funds to all beneficiaries' accounts.
(B) It opens accounts for all beneficiaries and issues smart cards.

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CHAPTER 15
Ancillary Services

Oct/Nov 2025

1. Which of the following is NOT listed as a primary category of ancillary services rendered by banks?
(A) Remittance Services
(B) Credit Appraisal Services
(C) Safe Deposit Services
(D) Government Business

Ans :

(B) Credit Appraisal Services
The chapter outlines ancillary services including Remittance Services, Payment Services, Safe Deposit Services, Government Business, and Miscellaneous Services. Credit appraisal is a core banking function related to lending and is not classified as an ancillary service in this context, which focuses on non-lending, fee-based activities that support the main banking operations for customers.

May/June 2008

2. Which two traditional remittance methods have become almost extinct due to the emergence of core banking, fintech, and digital payments?
(A) Mail Transfer (MT) and Telegraphic Transfer (TT)
(B) Demand Draft (DD) and Banker's Cheque (BC)
(C) National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS)
(D) Banker's Cheque (BC) and Mail Transfer (MT)

Ans :

(A) Mail Transfer (MT) and Telegraphic Transfer (TT)
The text explicitly states that the implementation of core banking services, the rise of fintech, and the ease of digital payments have made funds transfer through Mail Transfer (MT) and Telegraphic Transfer (TT) almost extinct. These slower, manual methods have been superseded by more efficient electronic systems like NEFT and RTGS for fund remittances.

NODIA

Oct/Nov 2010

3. A Bank Draft is described as being akin to a bill of exchange and is treated as a cheque for the purpose of protections under the NI Act. What is its fundamental nature?
(A) A promise to pay made by one branch to another
(B) A bearer instrument designed for making local payments
(C) An order drawn by one branch of a bank instructing another branch to pay a sum of money
(D) A conditional order to pay a certain sum of money to a specified person

Ans :

(C) An order drawn by one branch of a bank instructing another branch to pay a sum of money
A Bank Draft is defined as a negotiable instrument and an order from one bank branch to another. It instructs the drawee branch to pay a specified amount to a certain person's order. While it shares characteristics with a bill of exchange, it functions as a secure payment instrument guaranteed by the bank, unlike a personal cheque.

May/June 2021

4. A Demand Draft cannot be issued as 'payable to bearer' as it would be a violation of which specific regulation?
(A) Section 26 of the Negotiable Instruments Act, 1881
(B) Section 45 of the Banking Regulation Act, 1949
(C) Section 138 of the Negotiable Instruments Act, 1881
(D) Section 31 of the RBI Act, 1934

Ans :

(D) Section 31 of the RBI Act, 1934
A Demand Draft cannot be payable to bearer because doing so would make it equivalent to a currency note. This action is explicitly prohibited and constitutes a violation of Section 31 of the

May/June 2022

24. For what purpose can a bank take a Term Deposit as security from a new locker hirer?
(A) To cover three years' rent and charges for breaking open the locker.
(B) To cover one year's rent and miscellaneous charges.
(C) To cover potential damage to the locker's physical structure.
(D) To ensure the customer maintains a minimum balance in their savings account.

Ans :

(A) To cover three years' rent and charges for breaking open the locker.
As a safeguard against non-payment of rent, banks are permitted to take a Term Deposit from new locker applicants. This deposit is specifically intended to cover the rent for three years plus the potential charges the bank might incur for breaking open the locker in case of default or other eventualities.

Oct/Nov 2023

25. For how long must the CCTV recordings of the entry and exit of the strong room and common areas of locker operation be preserved?
(A) 30 days
(B) 90 days
(C) At least 180 days
(D) For a minimum of one year

Ans :

(C) At least 180 days
To enhance security and provide an audit trail, the area housing the locker facility must be covered by CCTV. The regulations stipulate that the recordings of the entry/exit point and common operational areas must be preserved for a minimum period of 180 days to aid in any investigation of unauthorized access or security breaches.

May/June 2016

26. Which of the following statements about locker standards is INCORRECT?
(A) Mechanical lockers require the application of only one key for operation.
(B) Mechanical lockers must conform to basic standards prescribed by the Bureau of Indian Standards (BIS).
(C) Electronically accessed lockers must comply with the Cyber Security Framework of RBI.
(D) Electronically accessed lockers should maintain an unalterable log of locker activities.

Ans :

(A) Mechanical lockers require the application of only one key for operation.
The statement that mechanical lockers require only one key for operation is incorrect. They require the application of two keys for operation (dual control), one being the bank's master key and the other being the customer's key. The other statements are correct: mechanical lockers must conform to BIS standards, electronically accessed lockers must comply with the RBI's Cyber Security Framework, and electronic lockers should maintain an unalterable log.

Oct/Nov 2009

27. To facilitate identification by law enforcement agencies, what must be embossed on all locker keys?
(A) The locker hirer's name
(B) The locker number only
(C) The date of locker allotment
(D) The Identification Code of the bank/branch

Ans :

(D) The Identification Code of the bank/branch
The guidelines require that the Identification Code of the bank and branch be embossed on all locker keys. This measure is designed to help law enforcement agencies easily identify the ownership of the lockers and the concerned bank branch in case the keys are found or seized during an investigation, streamlining the process.

May/June 2023

28. What action must be taken by a bank whenever a locker is surrendered by a customer?
(A) The locker must be kept vacant for at least 30 days.
(B) The lock of the locker should be inter-changed.
(C) The locker must be painted a different color.
(D) The previous hirer's details must be displayed on the locker.

Ans :

(B) The lock of the locker should be inter-changed.
As a security measure to protect the next hirer, it is a standard and mandatory procedure for banks

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reporting, thereby protecting the assets from theft or loss on behalf of the customer.

Oct/Nov 2007

39. What does 'Portfolio' mean in the context of Portfolio Management Services (PMS)?
(A) A collection of a customer's personal and legal documents for KYC.
(B) A list of a bank's high-net-worth clients eligible for premium services.
(C) The total loans disbursed by a branch, categorized by risk.
(D) A basket of mixed investments, such as Debt and Equity securities.

Ans :

(D) A basket of mixed investments, such as Debt and Equity securities.
A portfolio is defined as a basket of investments or securities. It typically comprises a mix of different asset classes, such as debt securities (which yield interest) and equity securities (which yield dividends and capital appreciation). The goal of managing this portfolio is to achieve a beneficial result by combining these different securities.

May/June 2014

40. Which of the following is NOT a basic principle of Portfolio Management?
(A) Large portfolio returns can be achieved with minimal portfolio risk.
(B) Diversification across securities reduces a portfolio's risk.
(C) Individual securities are important mainly for their effect on the aggregate portfolio.
(D) The risk of a security depends on its contribution to the overall portfolio risk.

Ans :

(A) Large portfolio returns can be achieved with minimal portfolio risk.
A key principle of portfolio management is: "Large portfolio returns come only with a larger portfolio risk." This highlights the fundamental trade-off between risk and return in investing. The idea that large returns can be achieved with minimal risk contradicts this principle.

Oct/Nov 2024

41. Assertion (A): Under RBI guidelines, Portfolio Management Services (PMS) are typically meant for long-term investible funds.
Reason (R): The minimum period for funds placed under PMS should be one year.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that PMS is for long-term funds is correct. The reason provides the specific regulatory basis for this, stating that the minimum investment period under PMS is one year. This minimum tenure requirement directly supports and explains why PMS is considered a service for long-term investment, making the reason a correct explanation of the assertion.

May/June 2010

42. According to RBI guidelines for Portfolio Management Schemes (PMS), where should the funds NOT be deployed?
(A) In the call money/bill market
(B) In capital market instruments
(C) In equity shares of listed companies
(D) In corporate bonds

Ans :

(A) In the call money/bill market
The RBI guidelines for PMS specify the permissible areas for fund deployment. While deployment in capital market instruments is allowed, the guidelines explicitly prohibit the deployment of PMS funds in the call money/bill market or as corporate loans. The focus is strictly on capital market instruments, reflecting the nature and risk profile of the service.

Oct/Nov 2025

43. As per the Narasimhan Committee's summary, which activity is central to the "main business of merchant banking"?
(A) Accepting retail deposits and providing consumer loans
(B) Providing safe deposit locker services
(C) Conducting government business as an agent of the RBI
(D) Management and underwriting of new issues and syndication of credit

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have against the survivor/nominee regarding the contents.

May/June 2019

34. Under what circumstance does a bank have the discretion to break open a locker due to non-payment of rent?
(A) If the rent has not been paid for three years in a row.
(B) If the rent has not been paid for one year.
(C) If the rent is overdue by 90 days.
(D) If the rent has not been paid for five consecutive years.

Ans :

(A) If the rent has not been paid for three years in a row.
A bank is granted the discretion to break open a locker for non-payment of rent, but only after a significant period of default. This action can be taken if the rent has not been paid by the customer for three consecutive years, and only after giving due notice and adequate time to respond.

Oct/Nov 2022

35. If a locker remains inoperative for seven years and the hirer is untraceable, even though rent is being paid regularly, what is the bank at liberty to do?
(A) Continue to maintain the locker indefinitely.
(B) Seize the contents for the bank's own use.
(C) Transfer the contents to their nominee/legal heir or dispose of them transparently.
(D) Report the matter to the police and seal the locker permanently.

Ans :

(C) Transfer the contents to their nominee/legal heir or dispose of them transparently.
In the specific situation where a locker is inoperative for a long period (seven years) and the hirer cannot be located, the bank has the right to act. It is at liberty to transfer the locker's contents to the hirer's nominees or legal heirs, or dispose of the articles transparently after following the due procedure.

May/June 2020

36. According to the rule stated in the excerpt, what is the extent of a bank's liability in the event of loss of locker contents due to a building collapse?
(A) The actual value of the lost contents.
(B) A fixed amount of ₹10 lakh.
(C) The bank has no liability in case of a building collapse.
(D) An amount equivalent to 100 times the annual locker rent.

Ans :

(D) An amount equivalent to 100 times the annual locker rent.
The rule states that the bank's compensation in several scenarios, including building collapse, is set at an amount equal to 100 times the prevailing annual rent of the safe deposit locker. This liability is not based on the actual value of the contents, which are unknown to the bank.

Oct/Nov 2015

37. In which of the following situations is a bank NOT liable for damage or loss of locker contents?
(A) Theft or burglary at the branch
(B) Fire originating from a short circuit in the bank
(C) Damage caused by an earthquake or flood
(D) Loss due to fraud by a bank employee

Ans :

(C) Damage caused by an earthquake or flood
While banks have a duty of care to protect against theft, robbery, and fire, they shall not be liable for any damage or loss of locker contents arising from natural calamities or Acts of God. This includes events like earthquakes, floods, lightning, and thunderstorms, provided the bank has taken appropriate care.

May/June 2025

38. Which ancillary service involves a financial institution holding a customer's securities for safekeeping to prevent them from being stolen or lost?
(A) Portfolio Management Service
(B) Custodial Services
(C) Merchant Banking
(D) Government Business

Ans :

(B) Custodial Services
Custodial services are defined as the service where a custodian bank holds a customer's securities, such as stocks and bonds, in either electronic or physical form. The primary purpose is to ensure their safekeeping and to handle related administrative tasks like settlement and

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to interchange the lock of a locker whenever it is surrendered. This ensures that the keys of the previous hirer cannot be used to access the locker, thereby preventing any potential misuse or unauthorized access.

Oct/Nov 2018

29. According to the Banking Regulation Act, 1949, sections 45-ZC to 45-ZF deal with which specific facility related to ancillary services?
(A) Issuance of duplicate demand drafts
(B) Charges for NEFT and RTGS transactions
(C) Nomination facilities in locker services
(D) Settlement of deceased depositor accounts

Ans :

(C) Nomination facilities in locker services
Sections 45-ZC to 45-ZF of the Banking Regulation Act, 1949, are the specific legal provisions that deal with the nomination facilities for safe deposit locker services. These sections empower customers to nominate individuals to receive the contents of the locker in the event of their death.

May/June 2007

30. Consider the following statements regarding nomination for safe deposit lockers:
1. For a singly operated locker, nomination can be made in favour of multiple individuals.
2. Two or more joint hirers can nominate one or more persons.

Which of the statements is/are correct?
(A) Only 1
(B) Only 2
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(B) Only 2
The rules for nomination state that for a singly operated locker, nomination can be made in favour of only one individual. However, in the case of a locker hired by two or more joint hirers, they are permitted to nominate one or more persons. Therefore, statement 1 is incorrect, and statement 2 is correct.

Oct/Nov 2014

31. What is the maximum time limit prescribed for banks to settle claims and release the contents of a deceased locker hirer's locker from the date of receipt of the claim?
(A) 15 days
(B) 7 days
(C) 30 days
(D) 45 days

Ans :

(A) 15 days
To ensure prompt settlement for the benefit of the nominee(s) or survivor(s), a clear timeline has been set. The policy for claim settlement mandates that claims in respect of deceased locker hirers should be settled, and the contents of the locker released, within a maximum period of 15 days from the date of receipt of the claim.

May/June 2012

32. In the case of the death of one of the joint hirers of a locker with a nominee registered, who is given access to the locker?
(A) Only the nominee(s)
(B) The surviving hirer(s) and the nominee(s) jointly
(C) Only the surviving hirer(s)
(D) The legal heirs of the deceased hirer only

Ans :

(B) The surviving hirer(s) and the nominee(s) jointly
When a locker is operated jointly and has a registered nominee, and one of the joint hirers dies, the bank is instructed to allow the surviving hirer(s) and the nominee(s) to access the locker and remove its contents jointly. This procedure is followed after an inventory of the contents is taken by the bank.

Oct/Nov 2006

33. When giving access to a nominee or survivor, the bank clarifies that the access is given to them in what capacity?
(A) As the absolute owner of the contents
(B) As a trustee of the legal heirs of the deceased
(C) As a temporary custodian on behalf of the bank
(D) As a joint owner with the bank

Ans :

(B) As a trustee of the legal heirs of the deceased
The bank must make it clear to the survivor(s) or nominee(s) that access to the articles is granted to them only as a trustee for the legal heirs of the deceased hirer. This access does not affect the right or claim that any other person may

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Ans :

(D) Management and underwriting of new issues and syndication of credit

The Narasimhan Committee report aptly summarises the main business of merchant banking. This includes the management and underwriting of new debt and equity issues, syndication of credit, and providing advisory services to corporate clients on fund-raising and other financial matters, distinguishing it from regular commercial banking activities.

May/June 2008

44. To engage in merchant banking activities related to handling the issue of debt or equity securities, what registration must a bank obtain?

(A) Registration with RBI as a Non-Banking Financial Company (NBFC)
(B) Registration with SEBI as a Category I Merchant Banker
(C) Registration with the Ministry of Corporate Affairs as an Investment Advisor
(D) Registration with IBA as a certified underwriter

Ans :

(B) Registration with SEBI as a Category I Merchant Banker

For banks to participate in merchant banking activities that involve managing the public issue of debt or equity securities for their corporate customers, they are required to obtain registration from the Securities and Exchange Board of India (SEBI). The specific registration required is as a Category I Merchant Banker, which authorizes these activities.

Oct/Nov 2010

45. Which of the following activities can a bank undertake as part of its banking functions without needing to register as a Category I Merchant Banker with SEBI?

(A) Underwriting of a public issue of equity shares
(B) Managing a public issue of debentures
(C) Extending bridge loans against issues
(D) Acting as a book running lead manager for an IPO

Ans :

(C) Extending bridge loans against issues

While managing and underwriting new issues requires SEBI registration, banks can still engage in certain related activities as part of their normal banking functions. These include loan syndication, payment of interest/dividend warrants, and extending bridge loans against the expected proceeds of an issue, without specific merchant banker registration.

May/June 2021

46. As of December 2021, which banks are eligible to conduct Government business as agents of the RBI?

(A) Only all public sector banks
(B) Only all public sector banks and 10 specified private banks
(C) Only the State Bank of India and its associates
(D) All public sector banks and 19 private banks

Ans :

(D) All public sector banks and 19 private banks

As of December 2021, all public sector banks and a specified list of 19 private sector banks are eligible to act as agents of the RBI for the purpose of conducting government agency business, after receiving the necessary approvals from the relevant authorities.

Oct/Nov 2016

47. Which of the following is NOT listed as a type of government service handled by banks?

(A) Issuing Sovereign Gold Bonds on behalf of the government
(B) Collection of Direct Taxes like Income Tax
(C) Opening of Public Provident Fund (PPF) Accounts
(D) Payment of Central and State Government Pensions

Ans :

(A) Issuing Sovereign Gold Bonds on behalf of the government

The provided list of government business services handled by banks includes collection of direct and indirect taxes, opening PPF accounts, and payment of pensions. However, the issuance of Sovereign Gold Bonds is not mentioned in the provided list of 11 services, making it the correct answer.

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Therefore, the surviving hirer (Mr. Akbar) will be allowed access to the locker, and the bank will not insist on the presence of legal heirs.

Oct/Nov 2008

57. A bank, upon reviewing its records, finds that a safe deposit locker has been inoperative for eight years. The rent for the locker has been paid regularly via standing instruction. The bank's attempts to contact the locker-hirer at the registered address have failed. What action is the bank at liberty to take?

(A) The bank must continue to maintain the locker as long as the rent is paid.
(B) The bank can immediately seize the contents and auction them.
(C) The bank can transfer the contents to the nominee/legal heir after following the due break-open procedure.
(D) The bank must seal the locker and wait for the hirer to return, irrespective of the time.

Ans :

(C) The bank can transfer the contents to the nominee/legal heir after following the due break-open procedure.
The rules state that if a locker remains inoperative for seven years and the hirer is untraceable (even if rent is paid), the bank is at liberty to act. The correct procedure is to follow the process for breaking open the locker and then transfer the contents to the hirer's nominees or legal heirs.

May/June 2006

58. A customer approaches a bank to get a Demand Draft for ₹75,000 and offers to pay the entire amount in cash. How should the bank teller respond according to the regulations?

(A) Inform the customer that the amount must be paid through a banking channel, not in cash.
(B) Issue the Demand Draft after accepting the cash payment.
(C) Refuse the transaction as DDs above ₹50,000 cannot be issued to non-account holders.
(D) Issue the DD but report the transaction to the Income Tax department immediately.

Ans :

(A) Inform the customer that the amount must be paid through a banking channel, not in cash.
Regulations (PMLR and Income Tax provisions) prohibit the issuance of a DD for ₹50,000 or more against a cash payment. The teller must inform the customer that for this amount, the payment must be made through a banking channel, such as by debiting their account or via a cheque, to ensure a proper audit trail.

Oct/Nov 2017

59. Mrs. Gupta loses the key to her safe deposit locker and informs the bank. She requests the bank to arrange for the locker to be broken open. Which of the following is a mandatory condition for the bank to proceed?

(A) The locker must be broken open only after banking hours.
(B) Mrs. Gupta must first file a police report and submit a copy to the bank.
(C) The bank must obtain permission from the RBI before breaking open the locker.
(D) The breaking open process must happen in the presence of Mrs. Gupta and an authorized bank official.

Ans :

(D) The breaking open process must happen in the presence of Mrs. Gupta and an authorized bank official.
When a customer loses their key and requests the locker to be broken open, the procedure requires proper authorization and presence. The locker has to be opened only after proper identification of the hirer, written authorization, and crucially, "in the presence of the customer/s and an authorized official of the bank."

May/June 2018

60. Match the service (List-I) with its key characteristic (List-II).

List-I
P. NEFT
Q. RTGS
R. Demand Draft
S. EBT Scheme

List-II
1. Negotiable instrument valid for 3 months
2. Settlement in batches on a Deferred Net Settlement (DNS) basis
3. Product for Financial Inclusion to disburse welfare benefits
4. Continuous, individual settlement with a minimum value of ₹2 lakh

(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-1, S-3

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The provided table specifies the maximum charges for different slabs of NEFT transactions. A transaction of ₹1,50,000 falls into the slab 'Above ₹1 lakh up to ₹2 lakh'. For this slab, the maximum permissible charge that a bank can levy on the customer is specified as ₹15/- (+ applicable GST).

Oct/Nov 2011

53. In the EBT model described, who designates the 'leader bank' for a district?

(A) The central government's Finance Ministry
(B) The National Payments Corporation of India (NPCI)
(C) The State Government, in consultation with the RBI Regional Office and SLBC
(D) The participating banks in the district through a mutual agreement

Ans :

(C) The State Government, in consultation with the RBI Regional Office and SLBC
The text clearly states that the State Government deals with a single leader bank in a district. It further specifies that this leader bank is "designated by it (the State Government) in consultation with the RBI Regional Office and SLBC, for the district." This indicates a collaborative decision-making process led by the state authority.

May/June 2017

54. What does the specific RBI Guideline "(i) CRR/ SLR has to be maintained on undeployed funds" imply for a bank managing funds under a Portfolio Management Scheme (PMS)?

(A) The bank must deploy all funds immediately upon receipt.
(B) Any portion of the client's funds that is temporarily held as cash is subject to statutory reserve requirements.
(C) CRR and SLR are applicable only to the bank's own investments, not PMS funds.
(D) The client is responsible for maintaining CRR/SLR on their funds.

Ans :

(B) Any portion of the client's funds that is temporarily held as cash is subject to statutory reserve requirements.
This guideline means that if a bank accepts funds from a client for its Portfolio Management Scheme but has not yet invested them ('undeployed funds'), this idle cash is considered a liability. Consequently, the bank is required to maintain the mandatory Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) on these undeployed funds.

Oct/Nov 2005

55. A customer, Mr. Sharma, requests a duplicate Demand Draft of ₹40,000 from his bank. The bank takes 35 days to issue the duplicate DD after completing all formalities. As per RBI guidelines, what is the bank obligated to do?

(A) The bank has no further obligation as the duplicate DD has been issued.
(B) The bank must waive the issuance charges for the duplicate DD.
(C) The bank must report the delay to the RBI within 7 days.
(D) The bank must pay compensatory interest for the delay beyond a fortnight.

Ans :

(D) The bank must pay compensatory interest for the delay beyond a fortnight.
RBI has stipulated that a duplicate DD should be issued within a fortnight (14 days). In this case, the delay is 35 days, which is more than the prescribed period. Therefore, the bank is obligated to compensate Mr. Sharma by paying interest for the period of delay, calculated at the applicable fixed deposit rate.

May/June 2024

56. A joint locker is hired by Mr. Amar and Mr. Akbar with the operating instruction as 'Either or Survivor'. They do not make any nomination. If Mr. Amar dies, who will be permitted to access the locker?

(A) Mr. Akbar, the survivor, will be allowed access as per the survivorship mandate.
(B) The legal heirs of Mr. Amar only.
(C) The bank will seal the locker until a court order is produced.
(D) Both Mr. Akbar and the legal heirs of Mr. Amar must operate it jointly.

Ans :

(A) Mr. Akbar, the survivor, will be allowed access as per the survivorship mandate.
The operating instruction 'Either or Survivor' constitutes a clear survivorship mandate. In the event of the death of one of the joint hirers (Mr. Amar), the bank must follow this mandate.

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May/June 2005

48. What is a key principle banks must follow while fixing service charges, as per the general guidelines?

(A) Charges should be highest for customers with low transaction volumes.

(B) Charges must be reasonable and not out of line with the average cost of providing the service.

(C) Charges should be fixed without the approval of the Board of Directors.

(D) Charges can be changed and applied retroactively without informing the customer.

Ans :

(B) Charges must be reasonable and not out of line with the average cost of providing the service.
A fundamental principle for levying service charges is that they must be reasonable. This means the charges should have a rational basis and be broadly aligned with the average cost incurred by the bank in providing the specific service. This prevents arbitrary or excessive charging and ensures fairness to the customer.

Oct/Nov 2019

49. Based on the excerpt, what are the two main parameters for identifying a 'basic banking service'?

(A) Customer age and account balance

(B) Nature of transaction and value of transaction

(C) Transaction channel and customer location

(D) Frequency of service and profit margin for the bank

Ans :

(B) Nature of transaction and value of transaction
The text explicitly outlines two broad parameters for defining basic banking services. The first is the nature of the transaction, focusing on services typically used by individuals in the middle and lower economic segments. The second is the value of the transaction, referring to low-value transactions below a prescribed ceiling, such as a remittance up to ₹10,000/- per instance.

May/June 2013

50. According to RBI's principles for reasonableness in service charges, how should charges for basic services for individuals compare to those for non-individuals?

(A) They should be at rates lower than those for non-individuals.

(B) They should be identical.

(C) They should be higher to cover the cost of smaller transactions.

(D) The rates are determined solely by the transaction channel used.

Ans :

(A) They should be at rates lower than those for non-individuals.
The principles laid down by RBI for ensuring reasonableness in charges specify that for basic services, the charges applicable to individual customers should be set at rates that are lower than those applied to non-individual or corporate customers. This is a measure to make basic banking more accessible and affordable for the general public.

Oct/Nov 2021

51. If a bank wishes to change its service charges, what is the minimum prior notice it must give to customers, and what option must be provided?

(A) 7 days notice, with no option to exit.

(B) 15 days notice, with an option to switch to a different product.

(C) 30 days notice, with an option to exit the relationship within that window.

(D) 60 days notice, with an option to get a refund of the previous year's charges.

Ans :

(C) 30 days notice, with an option to exit the relationship within that window.
For any change in service charges, banks are required to notify customers at least 30 days in advance. Crucially, this notification must be accompanied by an option for the customer to exit their relationship with the bank within that 30-day window without penalty, if they do not agree with the revised charges.

May/June 2009

52. Based on the table of RTGS/NEFT charges as of 31st May 2022, what is the maximum charge (excluding GST) a bank can levy for an outward NEFT transaction of ₹1,50,000?

(A) ₹5/-

(B) ₹25/-

(C) ₹2.50/-

(D) ₹15/-

Ans :

(D) ₹15/-

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(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-2, S-1

Ans :

(A) P-2, Q-4, R-1, S-3
NEFT (P) operates on a Deferred Net Settlement (DNS) basis, processing transactions in batches (2). RTGS (Q) is for high-value transactions (min. ₹2 lakh) settled continuously and individually (4). A Demand Draft (R) is a negotiable instrument with a standard validity of three months (1). EBT Scheme (S) is a financial inclusion product for welfare payments (3).

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CHAPTER 16

Financial Inclusion & Financial Literacy

Oct/Nov 2016

1. What is the primary definition of 'financial inclusion' or 'inclusive financing'?

(A) The delivery of premium financial services to high-net-worth individuals at competitive costs.

(B) The delivery of financial services at affordable costs to disadvantaged and low-income segments of society.

(C) The process of excluding high-risk segments from the formal financial system to ensure stability.

(D) The mandatory provision of credit-only products to all citizens by the government.

Ans :

(B) The delivery of financial services at affordable costs to disadvantaged and low-income segments of society.

Financial inclusion is defined as the process of making formal financial services available at affordable costs to segments of society, such as disadvantaged and low-income groups, who are typically excluded. This contrasts with financial exclusion, where such services are unavailable or unaffordable to these groups, thereby promoting broader economic participation and development.

May/June 2011

2. According to the definition of financial inclusion, which of the following are considered 'basic financial services'?

(A) Payments and remittance facilities, savings, loans, and insurance products.

(B) Wealth management, portfolio advisory, and international trade financing.

(C) Equity trading, commodity futures, and derivative instruments.

(D) Corporate lending, investment banking, and treasury operations.

Ans :

(A) Payments and remittance facilities, savings, loans, and insurance products.

Financial inclusion aims to provide a core set of affordable basic financial services through the formal financial system. This essential package includes facilities for payments and remittances, access to savings accounts, opportunities for obtaining loans, and the availability of insurance products. These services are fundamental to improving the financial well-being of excluded populations.

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Oct/Nov 2013

3. How has the Self-Help Group (SHG) movement contributed to financial inclusion?

(A) By exclusively focusing on providing high-interest loans to urban high-income groups.

(B) By creating a parallel, informal banking system that competes directly with formal banks.

(C) By facilitating financial inclusion and enabling the social and economic inclusion of women.

(D) By restricting access to credit for its members to reduce the overall debt burden in the economy.

Ans :

(C) By facilitating financial inclusion and enabling the social and economic inclusion of women.

The growth of Self-Help Groups (SHGs) and their linkage with banks has been a significant driver of financial inclusion. This movement has not only brought more people into the formal financial system but has also played a crucial role in the social and economic empowerment and inclusion of women, who form a large part of these groups.

May/June 2020

4. The bouquet of services under microfinance has expanded beyond traditional credit. Which of the following is NOT mentioned as part of this expanded service range?

(A) Micro insurance and micro pension.

(B) Digital payments and micro remittances.

(C) Thrift products (savings).
(D) Corporate merger and acquisition advisory.

Ans :

(D) Corporate merger and acquisition advisory.
Microfinance has evolved from offering only credit and thrift products to a broader range of services catering to the underprivileged. This expanded bouquet includes micro insurance, micro pension, micro remittances, and digital payments. Corporate merger and acquisition advisory is a specialized corporate finance service and is not part of the microfinance domain.

Oct/Nov 2005

5. To extend banking services, the RBI has permitted banks to use the services of certain intermediaries under which two primary models?
(A) The Agency Banking model and the Franchisee model.
(B) The Direct Selling Agent (DSA) model and the Referral model.
(C) The Business Facilitator (BF) model and the Business Correspondent (BC) model.
(D) The White Label ATM model and the Brown Label ATM model.

Ans :

(C) The Business Facilitator (BF) model and the Business Correspondent (BC) model.
To enhance financial inclusion, the Reserve Bank of India has allowed banks to engage intermediaries such as NGOs, SHGs, and MFIs. These engagements are structured under two main frameworks: the Business Facilitator (BF) model, which focuses on non-financial support services, and the Business Correspondent (BC) model, which involves conducting banking transactions.

May/June 2008

6. Under the Business Facilitator (BF) model, which of the following entities can banks use as intermediaries?
1. Well functioning Panchayats
2. Post offices
3. Krishi Vigyan Kendras
4. Insurance agents

(A) Only 1 and 2
(B) Only 1, 3 and 4
(C) Only 2 and 4
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4
The Business Facilitator (BF) model allows banks to engage a wide variety of intermediaries to provide facilitation services. The list of eligible entities includes well-functioning Panchayats, Post offices, Krishi Vigyan Kendras, and Insurance agents, along with others like NGOs, SHGs, Farmers' Clubs, and IT-enabled rural outlets, to extend the reach of banking services.

Oct/Nov 2024

7. Which of the following activities is outside the permitted scope of a Business Facilitator (BF)?
(A) Identification of borrowers and preliminary processing of loan applications.
(B) Creating awareness about savings and providing debt counselling.
(C) Post-sanction monitoring and follow-up for recovery.
(D) Conducting cash-based transactions like accepting deposits or disbursing loans.

Ans :

(D) Conducting cash-based transactions like accepting deposits or disbursing loans.
The role of a Business Facilitator is limited to facilitation services and does not involve the direct conduct of banking business. BFs can identify borrowers, process applications, create awareness, and monitor loans. However, they are not permitted to handle cash or conduct transactions like accepting deposits, as these activities are reserved for Business Correspondents.

May/June 2014

8. Consider the following statements regarding a bank's engagement of Business Correspondents (BCs):
1. The bank must have a Board-approved policy for engaging BCs.
2. The bank must conduct due diligence covering aspects like financial soundness and cash handling ability.
3. RBI approval is required for each individual BC engagement.

Which of the statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

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(A) The customer is solely responsible for any transactional errors or omissions made by the BC.
(B) The bank is responsible to the customer for all transactions and services provided by the BC.
(C) The BC is an independent entity, and the bank holds no legal liability for its actions or defaults.
(D) All disputes must be settled directly between the customer and the BC without involving the bank's staff.

Ans :

(B) The bank is responsible to the customer for all transactions and services provided by the BC.
To ensure customer protection and maintain trust, a fundamental risk mitigation measure is to establish clear accountability. All agreements with the customer must explicitly state that the bank remains responsible for the actions of its Business Correspondent. This ensures that the customer has recourse to the bank for any issues arising from the services rendered.

Oct/Nov 2017

17. What specific data segregation measure is required when a single company is engaged as a Business Correspondent (BC) by more than one bank?
(A) The company must use a single, integrated database for all its partner banks to improve efficiency.
(B) The customer database and account details of each bank must be kept separate.
(C) The company is required to serve customers of only one bank per day on a rotational basis.
(D) The company must obtain a separate license for each bank it partners with.

Ans :

(B) The customer database and account details of each bank must be kept separate.
To maintain data confidentiality, security, and prevent conflicts of interest, a critical operational control is required when a company acts as a BC for multiple banks. The guidelines mandate that the customer databases and specific account details for each partner bank must be maintained separately and not co-mingled, ensuring data integrity for each institution.

May/June 2006

18. What are 'Ultra Small Branches' (USBs) as permitted by the RBI?
(A) Low-cost, simple brick and mortar structures in rural centres from which BCs may operate.
(B) Large, fully-staffed branches located in metropolitan city centers and business hubs.
(C) Mobile banking vans that travel between different villages on a fixed weekly schedule.
(D) Unmanned digital kiosks that only provide ATM services and statement printing facilities.

Ans :

(A) Low-cost, simple brick and mortar structures in rural centres from which BCs may operate.
Ultra Small Branches (USBs) are an innovation to provide a physical, yet low-cost, banking presence in rural areas. They are simple brick-and-mortar outlets designed to serve as a hub for Business Correspondents. These branches are established to provide support to BCs and offer a fixed point of service for customers in the vicinity.

Oct/Nov 2023

19. An Ultra Small Branch (USB) is intended to be set up to provide support to how many BC units and at what approximate distance?
(A) 1-2 BC Units at a distance of 1-2 km.
(B) 20-25 BC Units at a distance of 10-15 km.
(C) 8-10 BC Units at a distance of 3-4 km.
(D) 50 BC Units at a distance of 20 km.

Ans :

(C) 8-10 BC Units at a distance of 3-4 km.
The establishment of USBs is strategically planned to create an effective support system for the BC network. Each USB is intended to be set up between the base branch and BC locations to provide oversight and support to a cluster of about 8 to 10 BC units operating within a reasonable distance of 3 to 4 kilometres.

May/June 2015

20. Consider the following statements about the features of an Ultra Small Branch (USB):
1. It must have a CBS terminal linked to a pass book printer.
2. It must be managed by part-time contractual staff.

Which of the above statements is/are correct?
(A) Only 1 is correct.
(B) Only 2 is correct.

NODIA

(D) Only provide education on managing money and debt counselling.

Ans :

(B) Disburse small value credit and collect small value deposits.
While both BFs and BCs perform facilitation activities like identifying borrowers and creating awareness, the crucial difference lies in handling cash transactions. A Business Correspondent's scope is wider, explicitly allowing them to conduct banking business like disbursing small loans, collecting deposits, and recovering principal/interest on behalf of the bank, which a BF cannot do.

Oct/Nov 2019

13. Regarding the preliminary work for account opening formalities, what role can banks assign to Business Correspondents (BCs)?
(A) BCs are prohibited from any involvement in the account opening process.
(B) BCs can fully approve and open bank accounts independently.
(C) BCs can be used for preliminary work related to account opening formalities.
(D) BCs can only distribute account opening forms but cannot assist in filling them.

Ans :

(C) BCs can be used for preliminary work related to account opening formalities.
To streamline the onboarding of new customers, particularly in remote areas, banks are permitted to use their Business Correspondents for the preliminary tasks associated with account opening. This helps in completing the initial paperwork and verification, although the final approval and account creation remain the responsibility of the bank's core banking system.

May/June 2025

14. What is the specific guideline regarding the fees or commission paid to Business Facilitators (BFs) or Business Correspondents (BCs)?
(A) BFs/BCs are allowed to charge a small, pre-disclosed service fee directly from the customers for convenience.
(B) The commission is paid directly by the customer to the BF/BC, and the bank later reimburses the customer via a credit.
(C) No commission or fee is to be paid, as the services are considered voluntary social work by the intermediaries.
(D) The bank pays a commission to the BF/BC, and the agreement must prohibit them from charging customers directly.

Ans :

(D) The bank pays a commission to the BF/BC, and the agreement must prohibit them from charging customers directly.
The model for remunerating BFs/BCs is clear to protect customers from exploitation. Banks are permitted to pay a reasonable commission or fee to their intermediaries. Crucially, the formal agreement between the bank and the BF/BC must specifically prohibit the intermediary from levying any direct charges on the customers for the banking services provided.

Oct/Nov 2012

15. Why are banks advised to adopt technology-based solutions for managing the risks associated with engaging Business Facilitators/Correspondents (BFs/BCs)?
(A) To manage reputational, legal, and operational risks and increase outreach cost-effectively.
(B) To reduce the commission payable to the BFs/BCs by automating payment structures.
(C) To eliminate the need for any physical interaction between the BC and the customer in all scenarios.
(D) To comply with a specific mandate that only certified IT companies can be appointed as BFs/BCs.

Ans :

(A) To manage reputational, legal, and operational risks and increase outreach cost-effectively.
The engagement of BFs/BCs introduces various risks, including reputational, legal, and operational ones. Technology-based solutions, such as ICT devices integrated with the bank's Core Banking System (CBS), are crucial for mitigating these risks. This approach enhances security, ensures accurate transaction processing, and enables a cost-effective expansion of services to a wider area.

May/June 2018

16. As part of risk mitigation measures in a BC arrangement, what should the agreement with the customer clearly specify?

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Ans :

(A) 1 and 2 only

When engaging Business Correspondents, banks must adhere to specific guidelines. These include having a Board-approved policy for the engagement and performing thorough due diligence on the prospective BC. This due diligence covers reputation, financial soundness, corporate governance, and technological capability. However, individual approval from the RBI for each BC is not required.

Oct/Nov 2021

9. Which of the following individuals are permitted to be appointed as Business Correspondents (BCs)?

(A) Only active bank employees and currently serving government officials.

(B) Only individuals operating Common Service Centres (CSCs) in metropolitan areas.

(C) Retired bank employees, retired teachers, and individual owners of kirana shops.

(D) Only authorized functionaries of registered political parties or their affiliates.

Ans :

(C) Retired bank employees, retired teachers, and individual owners of kirana shops.

The list of eligible individuals who can act as Business Correspondents is quite broad to maximize outreach. It includes retired bank employees, retired teachers, retired government employees, ex-servicemen, individual owners of kirana/medical/Fair Price shops, PCO operators, and individuals operating Common Service Centres (CSCs), among others, facilitating last-mile service delivery.

May/June 2017

10. According to the guidelines for engaging Business Correspondents (BCs), which entities are specifically permitted to be appointed as BCs by commercial banks, excluding Regional Rural Banks (RRBs)?

(A) Non-deposit taking registered NBFCs (NBFC-ND).

(B) Only deposit-taking registered NBFCs (NBFC-D).

(C) Any Non Banking Financial Company (NBFC).

(D) Unregistered Non Banking Financial Companies.

Ans :

(A) Non-deposit taking registered NBFCs (NBFC-ND).

The guidelines specify the types of entities that can be engaged as BCs. While companies with retail outlets are generally eligible, there is a specific provision for NBFCs. Commercial banks, with the exception of RRBs, are permitted to appoint non-deposit taking registered NBFCs (NBFC-ND) as their Business Correspondents, subject to certain conditions.

Oct/Nov 2008

11. Which of the following is a mandatory condition when a bank engages a non-deposit taking registered NBFC (NBFC-ND) as a Business Correspondent?

(A) The NBFC-ND must merge its own funds with the bank's funds for operational efficiency and reporting.

(B) The NBFC-ND is allowed to offer banking services exclusively to its own existing customer base.

(C) The NBFC-ND must be a wholly-owned subsidiary of the engaging bank to ensure accountability.

(D) The bank must ensure the NBFC-ND does not adopt any restrictive practices like forced bundling of services.

Ans :

(D) The bank must ensure the NBFC-ND does not adopt any restrictive practices like forced bundling of services.

To prevent conflicts of interest and protect customers, specific conditions apply when an NBFC-ND acts as a BC. The bank must ensure there is no co-mingling of funds and that the NBFC-ND does not engage in restrictive practices, such as offering banking functions only to its own customers or forcing customers to use both its services and the bank's.

May/June 2010

12. A key distinction in the scope of activities between a Business Facilitator (BF) and a Business Correspondent (BC) is that a BC can:

(A) Only identify borrowers and create awareness about savings.

(B) Disburse small value credit and collect small value deposits.

(C) Only process and submit applications to banks.

NODIA

(C) Both 1 and 2 are correct.
(D) Neither 1 nor 2 is correct.

Ans :

(A) Only 1 is correct.
An Ultra Small Branch is required to have essential banking infrastructure to support its functions. This includes a Core Banking System (CBS) terminal connected to a passbook printer and a safe for cash retention. However, USBs must be managed by full-time bank officers or employees, not part-time staff, to ensure proper oversight and accountability.

Oct/Nov 2014

21. If a complainant does not receive a satisfactory response from the bank regarding services rendered by a BC/BF, within what timeframe can they approach the Banking Ombudsman?
(A) Within 15 days from the date of lodging the complaint.
(B) Within 30 days from the date of lodging the complaint.
(C) Within 60 days from the date of lodging the complaint.
(D) Within 90 days from the date of lodging the complaint.

Ans :

(C) Within 60 days from the date of lodging the complaint.
The grievance redressal mechanism provides a clear timeline for escalation. If a customer has lodged a complaint with the bank about a BC/BF's services and does not receive a satisfactory response, they have the option to escalate the matter. This escalation to the office of the Banking Ombudsman is permitted after a period of 60 days.

May/June 2022

22. How does the use of biometrics in the BC model contribute to enhancing confidence in the banking system?
(A) It allows transactions to be processed significantly faster than any other available method.
(B) It enables even illiterate customers to operate accounts securely, ensuring transaction authenticity.
(C) It eliminates the need for the BC to carry any electronic device for customer verification.
(D) It reduces the commission paid by the bank to the Business Correspondent due to lower risk.

Ans :

(B) It enables even illiterate customers to operate accounts securely, ensuring transaction authenticity.
The integration of Information and Communications Technology (ICT), particularly biometrics, plays a vital role in financial inclusion. Biometric authentication (like fingerprints) allows customers, including those who are illiterate, to securely access their accounts and authorize transactions. This ensures authenticity and significantly enhances their confidence and trust in the formal banking system.

Oct/Nov 2011

23. What is the role of customer education as a complementary component of the Business Correspondent (BC) model?
(A) To sell advanced and high-risk investment products to newly acquired customers.
(B) To train existing customers to become future Business Correspondents for the bank.
(C) To fulfill a mandatory regulatory formality with no real impact on business growth.
(D) To form part of the bank's business strategy by educating clientele on the benefits of the banking habit.

Ans :

(D) To form part of the bank's business strategy by educating clientele on the benefits of the banking habit.
Customer education is considered an important part of a bank's business strategy when adopting the BC model. Complementary to financial inclusion and literacy, banks are encouraged to educate their clientele, often in local languages. This effort helps new customers understand the benefits of formal banking, fostering a sustainable banking habit among them.

May/June 2007

24. Which of the following correctly states the primary objectives for the establishment of Payment Banks (PBs)?
(A) To provide small savings accounts and payment services to low-income households and small businesses.

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Oct/Nov 2007

33. Who launched the "Common USSD Platform" for mobile banking in November 2012?
(A) The Reserve Bank of India (RBI).
(B) The National Payments Corporation of India (NPCI).
(C) The Ministry of Finance, Government of India.
(D) A consortium of leading telecom companies.

Ans :

(B) The National Payments Corporation of India (NPCI).
The "Common USSD Platform" was a significant step in making mobile banking accessible on basic feature phones. This initiative was launched in November 2012 by the National Payments Corporation of India (NPCI), which manages various retail payment and settlement systems in the country, to provide a standardized platform for all banks and telecom operators.

May/June 2021

34. What key capability was introduced with the launch of USSD 2.0 in December 2016?
(A) It made UPI available on non-internet based mobile devices through a dialing option.
(B) It restricted mobile banking to only internet-based smartphones.
(C) It replaced the 99# code with a new, bank-specific code system.
(D) It was launched exclusively for telecom companies, not for banks.

Ans :

(A) It made UPI available on non-internet based mobile devices through a dialing option.
The launch of USSD 2.0 was a major upgrade that integrated the Unified Payments Interface (UPI) with the USSD platform. This made UPI services accessible even on non-internet-based devices, including basic feature phones, simply by using the dialing option 99#.

Oct/Nov 2010

35. What is the common Unstructured Supplementary Service Data (USSD) code provided by NPCI for mobile banking services across all telecom operators?
(A) 121#
(B) 111#
(C) 99#
(D) 555#

Ans :

(C) 99#
To provide a uniform and easily accessible mobile banking service on feature phones, the National Payments Corporation of India (NPCI) offers a common USSD code. This code, 99#, can be dialed from any phone on any telecom network to access a menu of banking services without requiring an internet connection, making it highly inclusive.

May/June 2016

36. What are the two broad areas of focus in digital onboarding for financial inclusion?
(A) Marketing financial products and increasing service charges.
(B) Reducing the number of bank branches and promoting cash transactions.
(C) Developing complex financial products and targeting only high-net-worth individuals.
(D) Improving accessibility of financial platforms using FinTech and analysing risks from FinTech adoption.

Ans :

(D) Improving accessibility of financial platforms using FinTech and analysing risks from FinTech adoption.
Digital onboarding focuses on two main aspects to promote financial inclusion. The first is leveraging financial technology (FinTech) to make financial platforms more accessible to the excluded population. The second is to carefully analyze and mitigate the potential risks that may arise from the adoption of these new technologies, ensuring a secure and sustainable ecosystem.

Oct/Nov 2006

37. To bring uniformity and ensure security in the digital onboarding process by banks, which of the following processes have been framed by the RBI/Government?
1. V-CIP (Video based Customer Identification Process)
2. Digital KYC Process
3. Manual, in-person verification at a branch
(A) 1 and 3 only
(B) 2 and 3 only
(C) 1 and 2 only
(D) 1, 2 and 3

Ans :

NODIA

The SHG-Bank Linkage Programme is a cornerstone of financial inclusion, aiming to bring the rural poor into the formal banking fold. To strengthen this initiative, all scheduled commercial banks have been advised to ensure they meet the full and entire credit needs of the members of the Self-Help Groups linked with them.

Oct/Nov 2015

29. What is the primary focus of the Co-Lending Model (CLM) introduced by the RBI in November 2020?

(A) To encourage lending between two large corporate banks.
(B) To facilitate international lending by Indian banks.
(C) To improve synergy between banks and NBFCs for priority sector lending.
(D) To provide a framework for individuals to lend to each other.

Ans :

(C) To improve synergy between banks and NBFCs for priority sector lending.
The Co-Lending Model (CLM) was introduced to enhance credit flow to the priority sector. Its primary focus is to improve the synergy between banks, which have a lower cost of funds, and Non-Banking Financial Companies (NBFCs), which often have a greater reach in underserved areas. This collaboration aims for more effective and widespread lending.

May/June 2009

30. The accelerated spread of mobile usage among weaker sections, especially for payments and fund receipts, has been noted as a side effect of what event?

(A) The launch of the Jan Dhan Yojana.
(B) The demonetisation of currency in 2016.
(C) The establishment of Payment Banks.
(D) The Covid-19 pandemic.

Ans :

(D) The Covid-19 pandemic.
While the adoption of mobile banking has been hastened by low-cost smartphones and cheaper internet, one of the side effects of the Covid-19 pandemic has been an acceleration in the spread of mobile usage among weaker sections for various purposes, including making payments and receiving funds.

NODIA

Oct/Nov 2022

31. To promote financial inclusion in unbanked villages, banks use mobile phones and tablets to open which specific types of accounts?

(A) Small Accounts and Basic Savings Bank Deposit Accounts.
(B) Corporate salary accounts and NRI accounts.
(C) High-yield term deposit accounts.
(D) Demat and trading accounts.

Ans :

(A) Small Accounts and Basic Savings Bank Deposit Accounts.
Mobile technology is a key tool for extending banking services to unbanked areas. Banks leverage mobile phones and tablets, often operated by Business Correspondents, specifically to open simplified KYC accounts like 'Small Accounts' and 'Basic Savings Bank Deposit Accounts' (BSBDA). This facilitates easy and quick onboarding of new customers into the formal financial system.

May/June 2019

32. Consider the following statements identified as constraints to the rapid widespread adoption of mobile banking channels:

1. Genuine concerns about the security aspects of mobile banking.
2. The diversity of mobile operating systems and devices adding to complexity.
3. Most customers being first-time banking users who need to be made aware of the platform.

Which of the above statements are correct?

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
The path to widespread mobile banking adoption faces several hurdles. These include genuine security concerns that need to be addressed, the technical complexity arising from diverse mobile operating systems and devices, and the challenge of educating first-time users about how to use the mobile banking platform safely and effectively, all of which are valid constraints.

following is a mandatory condition the bank must enforce?
(A) The bank must ensure the NBFC-ND's funds are not mixed with the bank's funds.
(B) The NBFC-ND must transfer all its existing customers to the bank.
(C) The NBFC-ND is allowed to offer bank services only to its own high-value customers.
(D) The bank must pay a lower commission to the NBFC-ND compared to individual BCs.

Ans :

(A) The bank must ensure the NBFC-ND's funds are not mixed with the bank's funds.
When a bank appoints an NBFC-ND as a BC, RBI has stipulated specific conditions to manage risks and conflicts of interest. A primary condition is to prevent the commingling of funds. The bank must ensure that its own funds are kept separate from those of the NBFC-ND to maintain financial integrity and clear accountability.

Oct/Nov 2017

59. An NGO operating in a rural area wants to assist the local bank in promoting financial inclusion. Its members can help identify potential borrowers, create awareness about savings, and assist villagers in filling out loan applications, but they do not want to handle any cash. Under which model should the bank engage this NGO?
(A) Business Correspondent (BC) model
(B) Ultra Small Branch (USB) model
(C) Co-Lending Model (CLM)
(D) Business Facilitator (BF) model

Ans :

(D) Business Facilitator (BF) model
The Business Facilitator (BF) model is designed for intermediaries who assist with non-financial aspects of banking. Since the NGO's activities involve identification of borrowers, creating awareness, and processing applications without handling any cash transactions (like accepting deposits or disbursing credit), the BF model is the appropriate framework for this engagement.

May/June 2006

60. Assertion (A): Banks are advised to adopt technology-based solutions like ICT devices for transactions conducted by Business Correspondents.
Reason (R): Technology helps manage reputational and operational risks, increases outreach cost-effectively, and allows even illiterate customers to transact securely using biometrics.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true as banks are encouraged to use technology in the BC model. Reason (R) is also true, as it lists the key benefits of this technology adoption. The reason correctly explains why banks are advised to use technology—it mitigates various risks, improves efficiency, and enhances security and accessibility, especially for illiterate customers through biometrics.

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(C) 1 and 2 only

To facilitate secure and standardized remote customer onboarding, the RBI and the Government have introduced specific digital frameworks. These include the V-CIP (Video based Customer Identification Process) and the broader Digital KYC Process. These methods, often leveraging the Aadhaar ecosystem, allow for customer verification without requiring physical presence, ensuring both uniformity and security.

May/June 2023

38. What is the main objective of the flexible regulations for digital lending, as recognized by the RBI Working Group?

(A) To encourage the growth of all digital lenders, both authorized and unauthorized.

(B) To weed out unauthorized digital lenders without affecting the growth of legitimate lenders.

(C) To prohibit all forms of digital lending through online platforms and mobile apps.

(D) To make digital lending regulations more complex and restrictive for all players.

Ans :

(B) To weed out unauthorized digital lenders without affecting the growth of legitimate lenders.

The RBI Working Group on Digital Lending aims to create a balanced regulatory environment. The primary objective is to protect consumers by identifying and eliminating unauthorized and predatory digital lenders. At the same time, the regulations are designed to be flexible enough not to stifle innovation and the growth of legitimate digital lending platforms.

Oct/Nov 2018

39. Consider the following statements:

Assertion (A): Financial Inclusion and Financial Literacy are referred to as twin pillars.

Reason (R): Financial Literacy stimulates the demand side by making people aware of what they can demand, while Financial Inclusion stimulates the supply side by providing the financial services people demand.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

Financial Inclusion and Financial Literacy are described as “twin pillars” because they are interdependent and mutually reinforcing. Financial Literacy empowers the demand side, as educated consumers know which financial products to ask for. Financial Inclusion activities cater to the supply side, as banks and other institutions provide the services that people demand.

May/June 2005

40. Why is the need for financial literacy considered particularly great in India?

(A) Considering the low levels of literacy and the large section of the population still outside the formal financial set-up.

(B) Due to high levels of financial market saturation and over-banking in nearly all regions of the country.

(C) Because the entire population is already part of the formal financial system and needs advanced training.

(D) Because Indian citizens exclusively prefer informal sources of finance over formal banking channels.

Ans :

(A) Considering the low levels of literacy and the large section of the population still outside the formal financial set-up.

The need for financial literacy in India is especially pronounced due to a combination of factors. These include relatively low general literacy rates and, more importantly, a large segment of the population that remains excluded from the formal financial system. Financial literacy is crucial to bridge this gap and help people engage with formal finance effectively.

Oct/Nov 2025

41. Financial literacy is considered essential for all stakeholders in an economy. Which of the following groups are typically considered key targets for financial literacy initiatives?

1. Financially excluded resource-poor
2. Banks and financial institutions
3. High net worth individuals

NODIA

4. Policymakers and regulators

(A) 1 and 3 only
(B) 1, 2 and 3 only
(C) 2 and 4 only
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4
Financial literacy is important for all stakeholders, not just the unbanked. This includes users of financial services (from resource-poor to high net worth individuals), providers (banks and institutions), and the ecosystem enablers (policymakers and regulators) who must understand the landscape to drive the agenda effectively.

May/June 2013

42. What is the primary role of the Financial Literacy Centres (FLCs) that RBI has directed banks to establish?

(A) To disseminate information on general banking concepts to diverse target groups.
(B) To provide investment advice for high-risk equity markets.
(C) To sell insurance and mutual fund products on behalf of the bank.
(D) To function as full-fledged branches for cash transactions.

Ans :

(A) To disseminate information on general banking concepts to diverse target groups.
Financial Literacy Centres (FLCs) are established by banks as dedicated centers for education, not sales. Their primary function is to disseminate information on general banking concepts. They target diverse groups, including students, women, the rural and urban poor, and senior citizens, to empower them to make informed financial decisions and use banking services effectively.

Oct/Nov 2016

43. What is the fundamental purpose of the National Centre for Financial Education (NCFE)?

(A) To act as a single, unified financial services provider for the entire country.
(B) To directly regulate the day-to-day activities of banks, insurance companies, and pension funds.
(C) To function as a commercial entity for profit by selling advanced financial educational courses.
(D) To implement the National Strategy for Financial Education with support from all financial regulators.

Ans :

(D) To implement the National Strategy for Financial Education with support from all financial regulators.
The National Centre for Financial Education (NCFE) was established with the specific mandate to implement the National Strategy for Financial Education (NSFE). It operates collaboratively, with support from India's key financial sector regulators: RBI, SEBI, IRDAI, and PFRDA.

May/June 2011

44. Which of the following is NOT listed as a supporting financial sector regulator for the National Centre for Financial Education (NCFE)?

(A) Reserve Bank of India (RBI)
(B) National Bank for Agriculture and Rural Development (NABARD)
(C) Securities and Exchange Board of India (SEBI)
(D) Insurance Regulatory and Development Authority of India (IRDAI)

Ans :

(B) National Bank for Agriculture and Rural Development (NABARD)
The National Centre for Financial Education (NCFE) is a collaborative initiative supported by India's main financial sector regulators, which are the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI), and the Pension Fund Regulatory and Development Authority (PFRDA).

Oct/Nov 2013

45. What is the stated objective of the National Financial Literacy Assessment Test (NCFE-NFLAT) conducted by the NCFE?

(A) To recruit top-scoring candidates for entry-level positions in various financial institutions.
(B) To provide a standardized credit score for students applying for higher education loans.
(C) To motivate school students (classes VIII to X) to learn finance concepts and measure their awareness.

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(D) To certify and license individuals as professional financial advisors and wealth managers.

Ans :

(C) To motivate school students (classes VIII to X) to learn finance concepts and measure their awareness.
The NCFE-NFLAT is an educational initiative aimed at a specific demographic. Its objective is twofold: to motivate school students, specifically those in classes VIII to X, to learn about fundamental financial concepts, and to serve as a tool to measure the level of financial awareness among this young population, fostering financial literacy from an early age.

May/June 2020

46. What was the purpose of the pilot project launched by RBI in 2017 involving banks and NGOs to set up Centres for Financial Literacy (CFLs)?
(A) To replace all existing bank branches with CFLs.
(B) To provide direct lending services through these centres.
(C) To conduct market research for launching new premium banking products.
(D) To spread financial literacy through a community-led participatory approach.

Ans :

(D) To spread financial literacy through a community-led participatory approach.
The pilot project for Centres for Financial Literacy (CFLs) was initiated by the RBI to promote inclusive growth and customer protection. The core idea was to use a community-led, participatory approach, involving select banks and NGOs, to spread financial literacy more effectively at the grassroots level, with CFLs being set up block by block.

Oct/Nov 2005

47. The Rural Self Employment Training Institutes (RSETI) are an initiative of which body?
(A) Ministry of Rural Development (MoRD)
(B) Reserve Bank of India (RBI)
(C) A consortium of private sector banks.
(D) National Skill Development Corporation (NSDC)

Ans :

(A) Ministry of Rural Development (MoRD)
Rural Self Employment Training Institutes (RSETIs) are a national initiative aimed at tackling unemployment and promoting entrepreneurship among rural youth. These institutes were established under the aegis of the Ministry of Rural Development (MoRD), Government of India, to provide dedicated infrastructure for skill upgradation and training in every district of the country.

May/June 2008

48. Who is primarily responsible for managing the Rural Self Employment Training Institutes (RSETIs)?
(A) State Governments exclusively, through their district-level development offices.
(B) Banks, with active co-operation from the Government of India and State Governments.
(C) A consortium of Non-Governmental Organizations (NGOs) specializing in rural development.
(D) Private educational institutions that have a franchise agreement with the government.

Ans :

(B) Banks, with active co-operation from the Government of India and State Governments.
Although the RSETI initiative is driven by the Ministry of Rural Development, the operational management of these institutes is entrusted to banks. They manage the RSETIs with the active cooperation and support of both the Central Government (Government of India) and the respective State Governments, creating a collaborative public-private partnership for skill development.

Oct/Nov 2024

49. What is the typical duration of the skill development programs offered by each RSETI?
(A) A fixed duration of one year for all courses.
(B) A duration of 1 to 6 weeks, covering various program types.
(C) A minimum of 6 months for all programs.
(D) A flexible duration decided entirely by the trainee.

Ans :

(B) A duration of 1 to 6 weeks, covering various program types.

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RSETIs offer a variety of short-term, intensive training programs to quickly equip rural youth with marketable skills. Each RSETI is expected to offer 30 to 40 different skill development programs in a financial year, with the duration of these programs typically ranging from one to six weeks, depending on the specific area of training.

May/June 2014

50. Which objective of the Rural Self Employment Training Institutes (RSETIs) ensures that training is relevant to both the market and the individual?
(A) Offering trainings that are demand-driven and based on the candidate's aptitude.
(B) Providing escort services for at least two years after training.
(C) Ensuring there is an assured credit linkage with banks for trainees.
(D) Offering free food and accommodation during the residential program.

Ans :

(A) Offering trainings that are demand-driven and based on the candidate's aptitude.
The RSETI objectives focus on relevance by ensuring training is "demand driven," which aligns it with market needs, and that the area of training is decided after assessing the "candidate's aptitude," aligning it with the individual's capabilities and interests for better outcomes.

Oct/Nov 2021

51. To ensure the long-term success and sustainability of the micro-enterprises set up by trainees, for how long are RSETIs expected to provide escort services?
(A) For six months.
(B) For one year.
(C) For at least two years.
(D) For five years.

Ans :

(C) For at least two years.
The RSETI model includes a crucial post-training support component to ensure that the newly established micro-enterprises survive and thrive. One of the key objectives is to provide "escort services" or hand-holding support to the trainees for a minimum period of two years after the training is completed to ensure their sustainability.

May/June 2017

52. Which of the following is a key feature of the training programmes provided by RSETIs?
(A) They are long-term, academic degree courses.
(B) Trainees are charged a nominal fee for tuition and boarding.
(C) The trainings are offered exclusively online through e-learning modules.
(D) They are intensive, short-term, residential programmes with free food and accommodation.

Ans :

(D) They are intensive, short-term, residential programmes with free food and accommodation.
A defining characteristic of the RSETI training model is its immersive and supportive nature. The objectives state that trainees are to be provided with intensive, short-term, residential self-employment training. To ensure that even the most resource-poor youth can attend, these programmes are offered completely free of cost, including food and accommodation.

Oct/Nov 2008

53. Which of the following activities is NOT within the permitted scope of a Business Correspondent (BC)?
(A) Disbursal of small value credit.
(B) Collection of small value deposits.
(C) Final approval of loan applications.
(D) Recovery of principal and collection of interest.

Ans :

(C) Final approval of loan applications.
A Business Correspondent is authorized to perform many banking activities, including disbursing small loans, collecting deposits, and assisting in recovery. However, their role is that of an agent. They can perform preliminary processing and submission of loan applications, but the final credit decision-making and approval of the loan remain the sole prerogative of the bank.

May/June 2010

54. Which of the following is generally NOT specified as an eligible entity to act as a Business Facilitator or Correspondent?
(A) Non-governmental organizations (NGOs)
(B) Village Sarpanch
(C) Self-Help Groups (SHGs)

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(D) Micro Finance Institutions (MFIs)

Ans :

(B) Village Sarpanch
The lists of eligible entities for both BF and BC models are extensive and include institutions like NGOs, SHGs, and MFIs. While "well functioning Panchayats" are listed for the BF model, an individual "Village Sarpanch" is not explicitly mentioned as an eligible individual category, unlike retired teachers or kirana shop owners for the BC model.

Oct/Nov 2019

55. Match the financial inclusion initiative in List-I with its most appropriate description in List-II.
List-I
P. Ultra Small Branch (USB)
Q. Co-Lending Model (CLM)
R. RSETI
S. NCFE
List-II
1. Provides skill upgradation for rural youth entrepreneurship.
2. A low-cost brick-and-mortar outlet supporting BCs.
3. Implements the National Strategy for Financial Education.
4. A framework for banks and NBFCs to jointly lend to the priority sector.

(A) P-2, Q-4, R-1, S-3
(B) P-3, Q-1, R-4, S-2
(C) P-2, Q-3, R-1, S-4
(D) P-4, Q-2, R-3, S-1

Ans :

(A) P-2, Q-4, R-1, S-3
(P) An Ultra Small Branch is a low-cost physical outlet supporting BCs. (Q) The Co-Lending Model allows banks and NBFCs to partner for priority sector lending. (R) RSETI is an institute for training rural youth in self-employment. (S) NCFE is the nodal agency for implementing the national strategy for financial education.

May/June 2025

56. A daily wage earner in a remote village needs to send money to his family instantly without taking a day off from work. He owns a basic feature phone without an internet connection. Which financial inclusion tool would be most beneficial for him to perform this transaction at a low cost?

(A) Using USSD-based mobile banking by dialing 99#.
(B) Visiting a full-service bank branch in the nearest city.
(C) Applying for a cheque book and sending a cheque by post.
(D) Using internet banking on a desktop computer.

Ans :

(A) Using USSD-based mobile banking by dialing 99#.
USSD-based mobile banking is designed for this exact scenario. It allows the wage earner to send money instantly from his basic mobile phone without needing an internet connection, saving him from losing a day's wages. This service is low-cost and accessible, making it the most suitable option for his needs compared to other time-consuming or technology-dependent methods.

Oct/Nov 2012

57. A BPL youth from a rural area has a keen interest in dairy farming but lacks the formal skills and financial resources to start a small enterprise. Which institutional framework is specifically designed to identify such individuals, provide demand-driven training, and facilitate credit linkage with banks?
(A) A Payment Bank
(B) A Financial Literacy Centre (FLC)
(C) A Rural Self Employment Training Institute (RSETI)
(D) A Small Finance Bank

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Ans :

(C) A Rural Self Employment Training Institute (RSETI)
The RSETI framework is perfectly suited for this case. Its purpose is to identify rural BPL youth, assess their aptitude, provide demand-driven, short-term residential training for self-employment (like in dairy farming), and critically, provide hand-holding support for assured credit linkage with banks to help them start their micro-enterprise, fulfilling all the youth's needs.

May/June 2018

58. A commercial bank plans to engage a registered Non-Deposit taking NBFC (NBFC-ND) as its Business Correspondent to expand its reach. To comply with RBI guidelines, which of the

(B) To provide large corporate loans and complex project financing for infrastructure development.
(C) To focus on international remittances and trade finance services for large exporters.
(D) To offer complex wealth management, portfolio advisory, and private banking services.

Ans :

(A) To provide small savings accounts and payment services to low-income households and small businesses.
Payment Banks were established to further financial inclusion. Their primary objectives are to cater to the needs of specific segments, including migrant labour, low-income households, small businesses, and other unorganised sector entities. They achieve this by providing access to small savings accounts and efficient payments/ remittance services, not large-scale lending.

Oct/Nov 2020

25. Which of the following activities is a Payment Bank permitted to undertake according to its defined scope?
(A) Issuing credit cards to its customers.
(B) Accepting time deposits (Fixed Deposits) up to ₹2 lakh.
(C) Acting as a Business Correspondent (BC) for another bank.
(D) Providing overdraft facilities in savings accounts.

Ans :

(C) Acting as a Business Correspondent (BC) for another bank.
The defined scope of activities for Payment Banks explicitly permits them to act as a Business Correspondent (BC) for another bank. They can also accept demand deposits and issue debit cards, but are prohibited from issuing credit cards, providing overdrafts, or accepting time deposits.

May/June 2012

26. What is the maximum amount of demand deposits a Payment Bank is permitted to accept from a single customer?
(A) ₹2,00,000
(B) ₹50,000
(C) ₹1,00,000
(D) ₹5,00,000

Ans :

(A) ₹2,00,000
Payment Banks are designed for small savings and transactions, not large deposits. To adhere to this model, there is a regulatory cap on the amount they can hold per customer. The maximum end-of-day balance a Payment Bank can maintain in a demand deposit account for a single customer is ₹2,00,000.

Oct/Nov 2009

27. What is the minimum requirement for Payment Banks regarding the location of their physical access points?
(A) At least 50% of access points must be in metropolitan areas.
(B) All access points must be located exclusively in state capitals.
(C) There is no specific requirement for the location of access points.
(D) At least 25% of physical access points must be in rural centres.

Ans :

(D) At least 25% of physical access points must be in rural centres.
To ensure that Payment Banks contribute effectively to financial inclusion, there is a specific mandate regarding their operational footprint. They are required to have at least 25% of their physical access points, which includes their own outlets and Business Correspondents, located in unbanked rural centres, thereby ensuring service delivery in underserved areas.

May/June 2024

28. In the context of the SHG-Bank Linkage Programme, what have all scheduled commercial banks been advised to do?
(A) To provide credit only to the leaders of the Self-Help Groups.
(B) To meet the entire credit requirements of SHG members.
(C) To limit SHG loans to a maximum of ₹10,000 per group.
(D) To charge higher interest rates on SHG loans compared to other loans.

Ans :

(B) To meet the entire credit requirements of SHG members.

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CHAPTER 17
Customer Service Guidelines

May/June 2021

1. According to the fundamental definition, customer service in banking relates to the service provided at which stage of the customer relationship?
(A) Only during the establishment of the relationship
(B) Before, during, and after a relationship is established
(C) Only after the relationship has been established
(D) Primarily at the point of sale of a financial product

Ans :

(B) Before, during, and after a relationship is established
Customer service is a comprehensive activity that encompasses the entire lifecycle of a customer's relationship with the bank. It is not confined to a single stage but includes interactions before a relationship begins, throughout its duration, and even after it concludes. This continuous care is crucial for building loyalty and acting as a brand ambassador for the bank.

Oct/Nov 2016

2. In May 2022, the Reserve Bank of India constituted a six-member committee headed by B. P. Kanungo for what primary purpose?
(A) To review customer service standards in regulated entities
(B) To set up a new framework for digital payments
(C) To formulate new norms for bank branch licensing
(D) To create guidelines for inter-bank lending

Ans :

(A) To review customer service standards in regulated entities
The committee, led by former Deputy Governor B. P. Kanungo, was specifically tasked with reviewing customer service standards in entities regulated by the RBI. Its mandate includes evaluating the efficacy and adequacy of existing customer service, identifying gaps, and suggesting measures for improvement, particularly in the context of digital financial products and their distribution landscape.

May/June 2009

3. As per RBI's emphasis on Board-level deliberation for customer service, how often should a detailed memorandum on customer service aspects be submitted to the bank's Board of Directors?
(A) Once every month
(B) Once every quarter
(C) Once every six months
(D) Once every year

Ans :

(C) Once every six months
The Reserve Bank of India has stipulated that matters concerning customer service must be a focal point for the bank's Board. To ensure this, a detailed memorandum covering all aspects of customer service is required to be submitted to the Board of Directors for review on a half-yearly basis, meaning once every six months.

Oct/Nov 2025

4. Which of the following is NOT part of the prescribed institutional framework for customer service in banks as outlined by the RBI?
(A) Branch Level Customer Service Committees
(B) Standing Committee on Customer Service
(C) Customer Service Committee of the Board
(D) Regional Level Customer Service Audit Teams

Ans :

(D) Regional Level Customer Service Audit Teams
The prescribed organisational framework for customer service includes the Customer Service Committee of the Board (CSSB), a Standing Committee on Customer Service, Branch Level Customer Service Committees, and a Nodal department/official. While customer service

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(B) The loss is due to customer negligence but is reported to the bank immediately after discovery.
(C) A third-party breach occurs, and the customer reports it within 3 working days of receiving the communication.
(D) The amount of the fraudulent transaction is below the minimum threshold of ₹5,000.

Ans :

(C) A third-party breach occurs, and the customer reports it within 3 working days of receiving the communication.
A customer has zero liability in two specific scenarios. One is contributory fraud or negligence by the bank. The other is when a third-party breach causes the loss, with no fault of the bank or customer, provided the customer informs the bank within three working days of receiving the communication about the unauthorized transaction.

Oct/Nov 2006

30. An unauthorized transaction of ₹15,000 occurs in a customer's regular Savings Bank (SB) account due to a third-party system breach. The customer is not at fault. She reports the transaction to the bank on the 5th working day after receiving the bank's communication. What is the maximum liability of the customer?
(A) ₹15,000
(B) ₹5,000
(C) Zero
(D) ₹10,000

Ans :

(D) ₹10,000
When an unauthorized transaction due to a third-party breach is reported with a delay of 4 to 7 working days, the customer's liability is limited. The liability is the lower of the transaction value or the maximum amount specified for the account type. For a regular SB account, the maximum liability is ₹10,000. Since ₹10,000 is lower than ₹15,000, the customer's liability is ₹10,000.

May/June 2010

31. Match the 'Type of Account' in List-I with the correct 'Maximum Liability' in List-II for unauthorised transactions reported between 4 to 7 working days.

	List-I (Type of Account)		List-II (Maximum Liability)
P.	BSBD Accounts	1.	₹25,000
Q.	Credit cards with limit up to ₹5 lakh	2.	₹5,000
R.	Credit cards with limit above ₹5 lakh	3.	₹10,000

(A) P-2, Q-3, R-1
(B) P-1, Q-2, R-3
(C) P-2, Q-1, R-3
(D) P-3, Q-2, R-1

Ans :

(A) P-2, Q-3, R-1
As per the table on maximum customer liability, for reporting delays of 4-7 days, the liability for BSBD Accounts is capped at ₹5,000. For credit cards with a limit up to ₹5 lakh, the liability is capped at ₹10,000. For credit cards with a limit above ₹5 lakh, the liability is capped at ₹25,000.

Oct/Nov 2011

32. If a customer reports an unauthorised electronic transaction after a delay of more than 7 working days, how is their liability determined?
(A) The customer bears the entire loss of the fraudulent transaction.
(B) The liability is determined as per the bank's Board-approved policy.
(C) The liability is fixed at a maximum of ₹25,000 regardless of the account type.
(D) The customer has zero liability as the bank is ultimately responsible for system security.

Ans :

(B) The liability is determined as per the bank's Board-approved policy.
For reporting delays beyond 7 working days, the framework for limited liability does not apply. In such cases, the liability of the customer will be determined according to the specific customer protection policy approved by the bank's Board. This policy must be communicated to the customers at the time of establishing the relationship.

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May/June 2006

9. What is the primary role of the Nodal Department or Official for customer service located at the Head Office and controlling offices?
(A) To design new banking products and services based on market analysis
(B) To approve and disburse compensation claims from customers under the bank's policy
(C) To serve as the first point of contact for customer grievances and as a liaison for the Ombudsman and RBI
(D) To conduct mandatory staff training on customer service orientation and product knowledge

Ans :

(C) To serve as the first point of contact for customer grievances and as a liaison for the Ombudsman and RBI
The Nodal Department/Official for customer service acts as a central coordination point. It is designated as the initial contact for customers with grievances to approach. Furthermore, this department serves as the official liaison for the bank in its communications and dealings with the Banking Ombudsman and the Reserve Bank of India on customer service matters.

Oct/Nov 2018

10. Banks are required to have several Board-approved policies pertaining to customer service. Which of the following is NOT one of the explicitly mentioned required policies?
(A) Employee Code of Conduct Policy
(B) Comprehensive Deposit Policy
(C) Customer Compensation Policy
(D) Cheque Collection Policy

Ans :

(A) Employee Code of Conduct Policy
The guidelines mandate that banks must have specific, Board-approved policies for customer service, which include a Comprehensive Deposit Policy, Cheque Collection Policy, Customer Compensation Policy, and a Customer Grievance Redressal Policy. While an Employee Code of Conduct is an important internal document, it is not listed as one of these specifically required customer-facing service policies.

May/June 2012

11. The practice of "tying-up" the provision of other facilities with the placement of deposits is considered a restrictive practice and should not be adopted, as per which policy?
(A) Customer Compensation Policy
(B) Cheque Collection Policy
(C) Customer Grievance Redressal Policy
(D) Comprehensive Deposit Policy

Ans :

(D) Comprehensive Deposit Policy
The Comprehensive Deposit Policy is required to be transparent and set out the rights of depositors. This policy must explicitly state that providing other banking facilities by "tying-up" with the placement of deposits is a restrictive practice. Banks are instructed not to adopt such practices, ensuring that deposit-taking is not unfairly linked to other services.

Oct/Nov 2022

12. A bank's comprehensive and transparent Cheque Collection Policy must cover which of the following aspects?
1. Time frame for collection of local/outstation instruments.
2. Immediate credit for local/outstation cheques.
3. Interest payment for delayed collection.
4. Charges for cheque book issuance.

(A) 1 and 2 only
(B) 1, 2, and 3 only
(C) 2, 3, and 4 only
(D) All 1, 2, 3, and 4

Ans :

(B) 1, 2, and 3 only
The Cheque Collection Policy must specifically address three core components to ensure transparency and fairness. These are: offering immediate credit for local/outstation cheques where applicable, defining a clear time frame for the collection of these instruments, and stipulating the terms for payment of interest to the customer in case of any delay in collection.

May/June 2017

13. Which of the following issues is explicitly covered under the Customer Compensation Policy?
(A) Delays in loan application processing
(B) Disagreements over interest rates on new deposits

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May/June 2023

21. For all failed ATM transactions, where must the customer lodge the complaint?
(A) With the acquiring bank (the bank whose ATM was used)
(B) With the ATM System Provider
(C) With the nearest office of the Banking Ombudsman
(D) With the card issuing bank

Ans :

(D) With the card issuing bank
To streamline the complaint resolution process for failed ATM transactions, the guidelines clearly state that the customer must lodge the complaint with their own bank, which is the card issuing bank. The issuing bank is then responsible for taking up the matter for resolution, irrespective of which bank's ATM was used for the transaction.

Oct/Nov 2019

22. What is the penalty for non-replenishment of cash in an ATM, if the cash-out situation persists for more than ten hours in a month?
(A) A flat penalty of ₹5,000 per ATM
(B) A flat penalty of ₹10,000 per ATM
(C) A penalty of ₹100 per hour of downtime
(D) A penalty of ₹500 per day of downtime

Ans :

(B) A flat penalty of ₹10,000 per ATM
To ensure the availability of cash in ATMs and minimize inconvenience to the public, the RBI has implemented a penalty scheme. A cash-out at any ATM for a cumulative duration of more than ten hours in a single month will attract a flat penalty of ₹10,000 per ATM. This measure encourages banks and WLA operators to maintain timely cash replenishment.

May/June 2005

23. An ATM operated by a White Label ATM Operator (WLAO) ran out of cash. The total downtime due to non-availability of cash in a particular month was 12 hours. The cash for this WLA is managed by Bank XYZ. What is the immediate consequence?
(A) A penalty of ₹10,000 is charged directly to the WLAO by the RBI.
(B) No penalty is levied as the ATM is operated by a WLAO and not a bank directly.
(C) A penalty of ₹1,200 (₹100 per hour) is charged to the WLAO by Bank XYZ.
(D) A penalty of ₹10,000 is charged to Bank XYZ, which may then recover it from the WLAO.

Ans :

(D) A penalty of ₹10,000 is charged to Bank XYZ, which may then recover it from the WLAO.
The rule for a cash-out of more than 10 hours in a month applies to all ATMs, including WLAs. In the case of a WLA, the flat penalty of ₹10,000 is charged to the bank that is responsible for meeting the cash requirement of that WLA. The bank then has the option to recover this penalty amount from the WLA operator.

NODIA

Oct/Nov 2007

24. How are disputes between the issuing bank and the acquiring bank regarding failed ATM transactions to be settled?
(A) Through the dispute resolution mechanism of the ATM System Provider only
(B) Through bilateral settlement arrangements agreed upon by the two banks
(C) Through arbitration conducted by the Indian Banks' Association (IBA)
(D) Through the intervention of the local Branch Level Customer Service Committee

Ans :

(A) Through the dispute resolution mechanism of the ATM System Provider only
To ensure a standardized and efficient resolution process, all disputes concerning failed ATM transactions between the card-issuing bank and the ATM-acquiring bank must be settled exclusively through the dispute resolution mechanism provided by the ATM System Provider (like NFS). Bilateral settlement arrangements outside this formal channel are not permissible, preventing disputes over compensation payment.

May/June 2018

25. Consider the following statements about the reconciliation of failed ATM transactions:
1. Banks must resolve customer complaints of wrongful debit within T+5 working days.
2. For any delay beyond this period, the bank must compensate the customer at ₹200 per day.

Which of the statement(s) is/are correct?
(A) Only 1
(B) Only 2
(C) Both 1 and 2
(D) Neither 1 nor 2

and translated into the day-to-day operational procedures followed by the branch staff, ensuring intended service quality.

May/June 2011

17. From other bank ATMs, what are the number of free transactions (inclusive of financial and non-financial) a customer is eligible for in metro and non-metro centres, respectively?
(A) 5 in metro centres and 3 in non-metro centres
(B) 3 in metro centres and 3 in non-metro centres
(C) 3 in metro centres and 5 in non-metro centres
(D) 5 in metro centres and 5 in non-metro centres

Ans :

(C) 3 in metro centres and 5 in non-metro centres
While customers get five free monthly transactions at their own bank's ATMs, the limit for other bank ATMs varies by location. Customers are eligible for three free transactions per month in the six designated metro centres (Mumbai, New Delhi, Chennai, Kolkata, Bengaluru, and Hyderabad) and five free transactions per month in all non-metro centres across the country.

Oct/Nov 2021

18. Mr. Sharma, who has an account with Bank A in Mumbai (a metro centre), conducts 4 transactions at an ATM of Bank B in the same month. The transactions are: one cash withdrawal, two balance enquiries, and one mini statement request. How many of these transactions will be chargeable by his bank?
(A) One
(B) None
(C) Two
(D) All four

Ans :

(A) One
A customer is eligible for three free transactions (both financial and non-financial) from other bank ATMs in a metro centre. Mr. Sharma conducted a total of four transactions. Therefore, the first three transactions will be free of charge, and the fourth transaction, regardless of its nature (financial or non-financial), will be subject to charges as per regulations.

May/June 2015

19. To eliminate the risk of fraud from card readers that facilitate multiple transactions without repeated authentication, what security measure is mandated for ATMs?
(A) The ATM must capture a photograph of the user for every transaction
(B) The card must be chip-and-PIN enabled for all transactions
(C) The process must require PIN validation for every successive transaction, including balance enquiry
(D) The ATM must disable balance enquiry as a feature

Ans :

(C) The process must require PIN validation for every successive transaction, including balance enquiry
To mitigate the security risk associated with certain card readers that could allow multiple transactions in one session, RBI has mandated a crucial security measure. The ATM system must be configured to require PIN validation for each and every transaction, including non-financial ones like a balance enquiry. Additionally, time-out of sessions should be enabled for all screens.

Oct/Nov 2010

20. Which of the following must be displayed at all ATM kiosks to facilitate the lodging of complaints?
1. Telephone numbers of the help desk of the ATM owning bank.
2. Uniform Template for lodging ATM-related complaints.
3. Name and mobile number of the branch manager.
4. Email ID of the RBI Ombudsman.

(A) 1 and 2 only
(B) 1 and 3 only
(C) 2 and 4 only
(D) 3 and 4 only

Ans :

(A) 1 and 2 only
To ensure customers can easily lodge complaints, banks are required to display specific information at their ATM kiosks. This includes the telephone numbers of the help desk or contact persons of the bank that owns the ATM. Additionally, a Uniform Template, as prescribed by the RBI for lodging complaints related to ATM transactions, must be displayed.

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audits are mentioned elsewhere as a practice, Regional Level Customer Service Audit Teams are not a specified component of this formal institutional structure.

May/June 2014

5. What is a key function of the Customer Service Committee of the Board (CSSB)?
(A) To directly handle and resolve individual customer complaints escalated from branches
(B) To approve the daily operational budget for service enhancements at the branch level
(C) To formulate policies, assess compliance, and oversee improvements in customer service quality
(D) To conduct surprise daily audits of counter services at various designated branches

Ans :

(C) To formulate policies, assess compliance, and oversee improvements in customer service quality
The Customer Service Committee of the Board is a high-level body responsible for the strategic direction of customer service. Its primary functions include formulating service policies, assessing the bank's compliance with them, and driving ongoing improvements in service quality. It also plays a proactive role regarding grievances resolved by the Banking Ombudsman and can include external experts.

Oct/Nov 2005

6. The recommendation to establish a permanent Standing Committee on Customer Service in banks was made by which committee?
(A) The B. P. Kanungo Committee
(B) The Committee on Procedures and Performance Audit of Public Services (CPPAPS)
(C) The Narasimham Committee on Financial System Reforms
(D) The Damodaran Committee on Customer Service in Banks

Ans :

(B) The Committee on Procedures and Performance Audit of Public Services (CPPAPS)
The Committee on Procedures and Performance Audit of Public Services (CPPAPS) recommended that banks should have a permanent Standing Committee on Customer Service. This committee is envisioned as a dedicated, micro-level executive body to drive the implementation of service initiatives and provide feedback, acting as a bridge between various departments and the board-level committees.

May/June 2020

7. The Standing Committee on Customer Service may be chaired by whom?
(A) The head of the Nodal Department for customer service
(B) An external expert appointed by the RBI
(C) The most senior member of the Branch Level Customer Service Committee
(D) The Chairman and Managing Director (CMD) or the Executive Director (ED)

Ans :

(D) The Chairman and Managing Director (CMD) or the Executive Director (ED)
To give the Standing Committee on Customer Service sufficient authority, it is stipulated that it may be chaired by a top executive of the bank, such as the Chairman and Managing Director (CMD) or an Executive Director (ED). This ensures that its decisions and reviews carry weight and can be effectively implemented across different departments.

Oct/Nov 2012

8. Consider the following statements regarding Branch Level Customer Service Committees:
1. The committee must include at least one senior citizen.
2. The committee must meet at least once every quarter.

Which of the statement(s) is/are correct?
(A) Only 1
(B) Only 2
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(A) Only 1
Branch Level Customer Service Committees are required to be strengthened with greater customer involvement, which includes having at least one senior citizen as a member. However, the specified frequency for their meetings is at least once a month, not once a quarter, to promptly study complaints, suggestions, and other service-related difficulties faced by customers.

NODIA

Ans :

(A) Only 1

RBI has set a strict timeline for resolving customer complaints about wrongful debits from failed ATM transactions. The complaint must be resolved within a maximum of T+5 working days from the date of receipt. The compensation for delay is mandated at ₹100 per day, not ₹200, making the second statement incorrect.

Oct/Nov 2024

26. Read the excerpt below:

"In the case of Mail Order Telephone Order (MOTO) and Standing Instructions (SI) transactions, any customer complaint arising out of transactions effected without the additional factor of authentication the issuer bank has to reimburse the loss to the customer without demur."

What is the liability of the issuer bank in the described scenario?

(A) The bank is liable only if the customer proves negligence on the bank's part.
(B) The bank must unconditionally reimburse the customer for the loss.
(C) The bank's liability is limited to 50% of the transaction value.
(D) The bank must reimburse the customer only after a police investigation is completed.

Ans :

(B) The bank must unconditionally reimburse the customer for the loss.

The excerpt clearly states the bank's responsibility for specific Card Not Present (CNP) transactions like MOTO and SI. If these transactions are processed without an additional factor of authentication and a customer complains about it, the card-issuing bank is mandated to reimburse the full loss to the customer "without demur," which means without objection or delay.

May/June 2007

27. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R).

Assertion (A): For on-line Card Not Present (CNP) transactions, banks must have a system of additional factor of authentication.

Reason (R): The additional factor of authentication must be based on information that is visibly printed on the card.

In the context of the above two statements, which of the following is correct?

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(C) (A) is true, but (R) is false.

Assertion (A) is true; banks are required to implement an additional factor of authentication for CNP transactions to enhance security. However, Reason (R) is false. The guideline specifies that this additional factor must be based on information not visible on the cards, such as a one-time password (OTP), to prevent fraud if card details are compromised.

Oct/Nov 2014

28. Which of the following is NOT a recommended risk mitigating process for electronic payment transactions?

(A) Permitting electronic transactions for all customers, even those who have not provided mobile numbers
(B) Capturing of Internet Protocol (IP) address for transactions
(C) Allowing customers to instantly respond by "Reply" to SMS alerts to notify objection
(D) Implementing a velocity check on the number of transactions per day

Ans :

(A) Permitting electronic transactions for all customers, even those who have not provided mobile numbers

To mitigate risks, banks are advised not to offer the facility of electronic transactions, other than ATM cash withdrawals, to customers who do not provide their mobile numbers. This is because mobile numbers are crucial for sending mandatory SMS alerts, which are a key component of security and fraud detection in electronic banking transactions.

May/June 2019

29. Under the guidelines for limiting customer liability in unauthorised electronic banking transactions, a customer is entitled to zero liability if:

(A) The transaction is reported to the bank within 7 working days, irrespective of the cause.

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(C) Payment of interest for delay in the issue of a duplicate draft
(D) Rejection of a request for a new locker

Ans :

(C) Payment of interest for delay in the issue of a duplicate draft
The Customer Compensation Policy, which can be based on the IBA model, outlines specific scenarios for financial compensation to customers. It must cover aspects like erroneous debits, interest for collection delays, and payment of interest for delays in issuing a duplicate demand draft, along with other unauthorized actions by the bank causing financial loss.

Oct/Nov 2008

14. Read the excerpt below regarding the Board-approved policy for general management of branches:
"The policy should cover...
(d) Roving officials to ensure responsiveness of employees, and helping customers in their transactions.
(e) Providing multilingual booklets on services and facilities.
(h) Branch staff training with customer service orientation."
Based on the excerpt, what is the common objective behind these provisions?
(A) To enhance the physical security of the branch premises
(B) To reduce the operational costs of the branch
(C) To ensure compliance with foreign exchange regulations
(D) To improve customer guidance, assistance, and service quality

Ans :

(D) To improve customer guidance, assistance, and service quality
The provisions for roving officials, multilingual booklets, and staff training are all aimed at enhancing the customer's experience within the branch. Roving officials provide direct help, multilingual booklets offer clear information, and specific training orients staff towards better service. Together, these measures are designed to improve guidance, assistance, and the overall quality of customer interactions.

NODIA

May/June 2024

15. Identify the INCORRECT statement regarding the Board-approved policy for the general management of branches.
(A) The policy must stipulate fixed business hours for all branches as determined by the Head Office.
(B) The policy should cover the provision of infrastructure facilities like drinking water and proper furniture.
(C) The policy should mandate the appointment of Quality Assurance Officers.
(D) The policy should include holding customer relation programmes to interact with different customer segments.

Ans :

(A) The policy must stipulate fixed business hours for all branches as determined by the Head Office.
The policy for general management of branches is comprehensive, covering infrastructure, staff training, and customer interaction. However, the guidelines state that banks may fix business hours for their branches at their discretion, and rural branches can set hours to suit local requirements. Therefore, a policy mandating fixed hours for all branches is not a requirement.

Oct/Nov 2013

16. What is the designated role of 'Quality Assurance Officers' within the framework of the policy for general management of branches?
(A) To conduct the final audit of the branch's annual financial statements
(B) To ensure that the board-approved customer service policy is translated into proper procedures
(C) To sanction high-value loans and advances beyond the branch manager's authority
(D) To manage the daily treasury and cash management operations of the branch

Ans :

(B) To ensure that the board-approved customer service policy is translated into proper procedures
The appointment of Quality Assurance Officers is a measure to bridge the gap between policy and practice. Their specific responsibility is to ensure that the high-level directives and principles outlined in the board-approved policy for branch management are effectively implemented

May/June 2025

33. In metropolitan and urban centres, what is the prescribed reporting time for staff relative to the commencement of business hours?
(A) Exactly at the commencement of business hours
(B) 15 minutes after the commencement of business hours
(C) 15 minutes earlier than the commencement of business hours
(D) 30 minutes earlier than the commencement of business hours

Ans :

(C) 15 minutes earlier than the commencement of business hours
To ensure that counter services can begin punctually at the start of business hours, the working hours for staff, especially in metropolitan and urban centres, are fixed to begin 15 minutes earlier. This allows employees to be at their seats and ready to serve the public exactly when the branch opens for business.

Oct/Nov 2023

34. Bank branches are required to function for public transactions for a minimum of how many hours on weekdays and working Saturdays?
(A) 3 hours
(B) 5 hours
(C) 6 hours
(D) 4 hours

Ans :

(D) 4 hours
The guidelines stipulate that bank branches must remain open for public business for a minimum duration to ensure adequate service availability. This minimum period is set at 4 hours on all weekdays and working Saturdays. Banks have the discretion to fix the specific timings, but the duration of public service cannot be less than this.

May/June 2013

35. Under the Negotiable Instruments Act, 1881, and delegated powers, who has the authority to declare a public holiday for a specific part of a state?
(A) The concerned State Government
(B) The Reserve Bank of India
(C) The Central Government only
(D) The District Collector

Ans :

(A) The concerned State Government
While the Central Government can declare a public holiday for the entire country under Section 25 of the NI Act, this power has also been delegated. Based on a Ministry of Home Affairs notification from 1957, State Governments are empowered to declare a public holiday under the NI Act for the entire state or any specific part of it.

Oct/Nov 2015

36. What is the bank's obligation towards customers who are present in the banking hall at the close of business hours?
(A) They should be asked to return the next working day
(B) They should all be attended to
(C) They should be attended to for non-cash transactions only
(D) They should be charged a late service fee

Ans :

(B) They should all be attended to
A key principle of good customer service is that no customer who has entered the branch during business hours should be turned away. The guidelines explicitly state that all customers who are already inside the banking hall at the announced time of closing must be attended to by the branch staff on the same day.

May/June 2008

37. Which of the following is classified as a 'non-voucher generating transaction' that can be attended to during extended business hours?
(A) Issue of term deposit receipts (TDR)
(B) Acceptance of cheques for locker rent due
(C) Issue of gift cheques
(D) Delivery of term deposit receipts/drafts

Ans :

(D) Delivery of term deposit receipts/drafts
Transactions are categorized for the purpose of extending business hours. Non-voucher generating transactions, which are simpler, include activities like issuing passbooks, delivering already prepared TDRs or drafts, and accepting clearing cheques. Issuing a new TDR or accepting a cheque for rent are voucher-generating transactions, as they involve a financial entry at that moment.

Oct/Nov 2017

38. The provision for "Enquiry" or "May I help you" counters in all but very small branches is primarily intended for what purpose?

(A) To provide initial guidance to customers, direct them to appropriate counters, and improve overall satisfaction

(B) To sell third-party insurance products as a primary revenue stream

(C) To pre-screen and collect documents for loan applications

(D) To exclusively handle cash transactions above a certain threshold

Ans :

(A) To provide initial guidance to customers, direct them to appropriate counters, and improve overall satisfaction

The "Enquiry" or "May I help you" counter serves as a first point of contact for customers entering the branch. Its main purpose is to provide guidance, answer queries, direct customers to the correct counter, and offer general assistance. This proactive help contributes significantly to customer satisfaction by making their visit more efficient and pleasant.

May/June 2022

39. What is the minimum size specified by the RBI for the Comprehensive Notice Board to be displayed at bank branches?

(A) 1 foot × 2 feet

(B) 2 feet × 3 feet

(C) 3 feet × 3 feet

(D) 2 feet × 2 feet

Ans :

(D) 2 feet × 2 feet

To ensure uniformity and comfortable viewing for customers, the RBI has advised norms for the display of information. The Comprehensive Notice Board, which contains essential service information, is required to have a minimum size of 2 feet × 2 feet. This ensures the information is clearly visible and not cramped.

Oct/Nov 2020

40. The information displayed on the Comprehensive Notice Board at branches is to be organized into four main categories. Which of the following is NOT one of these specified categories?

(A) Staff Information

(B) Service charges

(C) Grievance redressal

(D) Others

Ans :

(A) Staff Information

The RBI has mandated that information on the Comprehensive Notice Board be displayed under four specific categories for clarity and ease of access. These categories are 'Customer service information', 'Service charges', 'Grievance redressal', and 'Others'. Information about staff is not one of the prescribed primary categories for this board.

May/June 2016

41. Which of the following principles should be followed for the information displayed on the Comprehensive Notice Board?

1. It must be updated periodically, with the date indicated.
2. It should be simple and readable.
3. It should be bilingual/trilingual.
4. Recent changes should be marked.

(A) 1 and 2 only

(B) 1, 2, and 3 only

(C) 2, 3, and 4 only

(D) All 1, 2, 3, and 4

Ans :

(D) All 1, 2, 3, and 4

To maximize the effectiveness of the notice board, several principles must be followed. The information must be kept current with updates clearly dated, presented in a simple and readable manner, be in the local language(s) (bilingual/trilingual), and any recent changes should be highlighted or marked to draw customer attention to new information.

Oct/Nov 2009

42. When providing booklets or brochures to customers containing details of various schemes and services, what is the minimum font size that should be used?

(A) Arial 8

(B) Times New Roman 10

(C) Calibri 12

(D) Arial 10

Ans :

(D) Arial 10

To ensure readability, especially for all sections of the public including senior citizens, the guidelines

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specify a minimum standard for printed materials. Booklets and brochures provided to customers must be printed in a font size of at least Arial 10. They should also be bilingual or trilingual to cater to a wider audience.

May/June 2021

43. Read the excerpt below regarding information on the bank's website:
"On pricing of credit following additional information is also to be displayed: ... (iii) Annual Percentage Rate (APR) or such similar other arrangement of representing the total cost of credit on a loan."
What does the Annual Percentage Rate (APR) represent?
(A) The average interest rate charged on similar loans during the past quarter
(B) The total of all one-time fees and charges applicable to the loan, excluding interest
(C) The total cost of credit on a loan, including interest and fees, expressed as a yearly rate
(D) The mean of advertised interest rates for a specific loan category across the industry

Ans :

(C) The total cost of credit on a loan, including interest and fees, expressed as a yearly rate
The excerpt states that the Annual Percentage Rate (APR) is an arrangement for "representing the total cost of credit on a loan." This means the APR is a comprehensive measure that includes not just the interest rate but also other fees and charges, expressed as a single annualized percentage, giving the borrower a clearer picture of the loan's overall cost.

Oct/Nov 2016

44. What is a Key Statement / Fact Sheet, as required to be provided to individual borrowers?
(A) A detailed multi-page document outlining all possible risks associated with the loan
(B) A one-page summary box included at the end of the final credit agreement
(C) An annual statement of the loan account showing all transactions and interest charged
(D) A clear, concise, one-page document given at every stage of loan processing

Ans :

(D) A clear, concise, one-page document given at every stage of loan processing
The Key Statement or Fact Sheet is a standardized, transparent tool for borrower information. It is a clear and concise one-page document, in a format prescribed by the RBI. It must be provided to individual borrowers at every stage of the loan processing and is also included as a summary box in the final credit agreement.

NODIA

May/June 2009

45. Match the information item in List-I with the correct website display category in List-II.

	List-I (Information Item)		**List-II (Website Category)**
P.	Citizen's Charter	1.	V. Branches
Q.	Details of ATMs with addresses	2.	IV. Loans and Advances
R.	Copy of blank loan agreement	3.	III. Opening of Accounts
S.	Interest rates on Deposits	4.	I. Policy / Guidelines

(A) P-4, Q-1, R-2, S-3
(B) P-1, Q-4, R-3, S-2
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-3, R-4, S-1

Ans :

(A) P-4, Q-1, R-2, S-3
As per the prescribed website disclosure format, the Citizen's Charter falls under 'I. Policy / Guidelines'. Details of ATMs are listed under 'V. Branches'. A copy of the blank agreement to be executed by the borrower is placed under 'IV. Loans and Advances'. Interest rates on Deposits are categorized under 'III. Opening of Accounts'.

Oct/Nov 2025

46. Banks are required to display service charges at branches in the local language. This display must include which of the following?
1. Services rendered free of charge.
2. Charges for non-maintenance of minimum balance in SB account.
3. Charges for deposit/withdrawal at ATM locations.
4. Penal interest rates for loan defaults.

(A) 1 and 2 only
(B) 1, 2 and 3 only
(C) 2, 3 and 4 only

A customer has the right to voluntarily terminate the banking relationship for any reason. Common reasons include a change of residence, which makes the branch location inconvenient, or dissatisfaction with the quality of service provided by the bank. Upon receiving such a request, the bank is bound to comply and facilitate the account closure.

Oct/Nov 2005

18. What is a mandatory prerequisite for a bank to close a customer's account due to unsatisfactory conduct?
(A) Giving a reasonable notice to the customer
(B) Obtaining permission from the Reserve Bank of India
(C) Publishing a notice in a local newspaper
(D) Filing a report with the local police

Ans :

(A) Giving a reasonable notice to the customer
While a bank has the right to terminate its relationship with a customer for reasons like unsatisfactory conduct, it cannot do so arbitrarily. The bank must provide the customer with a reasonable notice before closing the account. This allows the customer adequate time to make alternative banking arrangements and settle any outstanding matters related to the account.

May/June 2020

19. Upon receiving notice of a customer's death, which of the following actions should the bank take regarding the deceased's account?
(A) Freeze the account completely, blocking both incoming credits and outgoing debits
(B) Immediately transfer the entire balance to the legal heirs based on their verbal claim
(C) Stop all debit transactions but continue to allow credits into the account
(D) Close the account and hold the entire fund balance in an internal suspense account

Ans :

(C) Stop all debit transactions but continue to allow credits into the account
When a bank is notified of a customer's death, its authority to honour cheques drawn by that customer is revoked. Therefore, it must immediately stop all debit transactions. However, credits, such as dividends or interest payments, can still be accepted into the account. The final balance is paid out later to the nominee or legal representative.

Oct/Nov 2015

20. What is the legal basis for a bank to close an account upon learning of a customer's insanity?
(A) A directive from the Banking Ombudsman
(B) The provisions of the Banker's Books Evidence Act, 1891
(C) The bank's internal risk management policy
(D) Section 11 of the Indian Contract Act, 1872

Ans :

(D) Section 11 of the Indian Contract Act, 1872
Under Section 11 of the Indian Contract Act, 1872, a person of unsound mind is not competent to enter into a contract. Since the banker-customer relationship is contractual, the customer's insanity legally incapacitates them. Upon receiving notice and confirmation (e.g., medical reports) of the insanity, the bank will not honour cheques and will proceed to close the account.

May/June 2012

21. The Committee on Procedures and Performance Audit of Public Services, which recommended the formation of BCSBI, was constituted under the chairmanship of whom?
(A) C. Rangarajan
(B) Y. V. Reddy
(C) S. S. Tarapore
(D) Bimal Jalan

Ans :

(C) S. S. Tarapore
In November 2003, the Reserve Bank of India constituted the Committee on Procedures and Performance Audit of Public Services to address issues related to banking services for the common person. This committee was headed by Shri S.S. Tarapore, a former Deputy Governor of the RBI. Its key recommendation was the establishment of the Banking Codes and Standards Board of India (BCSBI).

Oct/Nov 2012

22. The Banking Codes and Standards Board of India (BCSBI) was registered as a separate society on which date?
(A) February 18, 2006
(B) April 1, 2019
(C) May 31, 2008

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While talking ATMs with Braille keypads are for visually impaired persons, a specific provision is mandated for persons with low vision. All bank branches are required to have magnifying glasses available. This simple tool can assist customers who have difficulty reading the fine print on forms, passbooks, and other documents, making banking more accessible for them.

May/June 2006

51. When opening or operating a bank account for a person with a disability like Autism or Cerebral Palsy, on what can the bank rely and be guided by?

(A) A self-declaration form signed by the person opening the account, if possible
(B) A sworn affidavit from the next of kin, authenticated by a Notary Public
(C) A recent medical certificate from a government-registered medical practitioner
(D) The orders or certificates issued by the competent authority appointing a guardian or manager

Ans :

(D) The orders or certificates issued by the competent authority appointing a guardian or manager

To facilitate banking for persons with certain disabilities, the guidelines provide a clear legal basis for banks to act upon. Banks are instructed to rely on the official orders or certificates issued by a competent authority under the respective laws, which formally appoint guardians or managers for the purpose of opening and operating bank accounts.

Oct/Nov 2018

52. What specific change has the RBI directed banks to make in all their forms and applications regarding gender classification?

(A) To remove any reference to gender
(B) To include 'Third Gender' as an option
(C) To add a 'Prefer not to say' option
(D) To use only 'Male' and 'Female' as options

Ans :

(B) To include 'Third Gender' as an option

In line with the legal rights of transgender persons, the Reserve Bank of India has directed all banks to update their documentation. They must include the 'Third Gender' option in all bank forms, applications, and any other documents where gender classification is envisaged, ensuring inclusivity and recognition for transgender individuals.

May/June 2012

53. Read the excerpt below:

"Banking, by definition, means acceptance of deposits of money from the public... Any condition restricting deposit of cash over the counters amounts to an unfair practice. Branches must invariably accept cash over the counters from all their customers who desire to do so..."

Based on this, what is considered an unfair banking practice?

(A) Not offering investment advisory services at all branch locations
(B) Charging a nominal fee for cash deposits above a very high daily limit
(C) Stipulating a condition that restricts the deposit of cash over the counter
(D) Designing a new digital-only product that only accepts electronic deposits

Ans :

(C) Stipulating a condition that restricts the deposit of cash over the counter

The excerpt emphasizes that a fundamental tenet of banking is the acceptance of deposits. It explicitly states that imposing any condition that restricts customers from depositing cash over the counter is considered an unfair practice. Therefore, branches are obligated to accept cash deposits from any customer who wishes to make one at the counter.

Oct/Nov 2022

54. In a case of an erroneous debit where the fault lies neither with the bank nor the customer but elsewhere in the system, what is the bank's advised course of action?

(A) The bank should reject the customer's claim since it is not at fault for the error.
(B) The bank should advise the customer to pursue the matter directly with the third party at fault.
(C) The bank should pay the full amount only after it successfully recovers the funds from the party at fault.
(D) The bank should compensate the customer up to a limit, as part of a Board-approved policy.

NODIA

May/June 2013

9. Disclosure of a customer's dealings with terrorists or engagement in illegal drug trafficking would be justified under which exception to the duty of secrecy?
(A) Disclosure in the interest of the bank itself
(B) Disclosure with the implied consent of the customer
(C) Disclosure in the public interest
(D) Disclosure under compulsion of law

Ans :

(C) Disclosure in the public interest
Banks have a duty to disclose information in the public interest. This duty arises in situations involving serious anti-national and illegal activities, such as terrorism, smuggling, or illegal drug trafficking. Although the concept of 'public interest' can be legally vague, such severe cases are considered clear instances where the bank's duty to the public overrides its duty to the customer.

Oct/Nov 2010

10. In which scenario is a bank protected when it discloses information about a borrower's account?
(A) When furnishing information to the borrower's guarantor for recovery of dues
(B) When providing details to a credit rating agency without the borrower's consent
(C) When publishing a list of all defaulting borrowers in a newspaper to warn the public
(D) When verbally discussing the account with a potential business partner of the borrower

Ans :

(A) When furnishing information to the borrower's guarantor for recovery of dues
A bank is protected when it discloses information in its own interest. Providing details of a borrower's account to a guarantor or their solicitor for the purpose of recovering outstanding dues is a valid example of this principle. This disclosure is considered necessary for the bank to protect its financial interests and enforce the terms of the guarantee contract.

May/June 2018

11. According to the Credit Information Companies (Regulation) Act, 2005, what is the obligation of every credit institution regarding Credit Information Companies (CICs)?
(A) To provide credit data to CICs only upon the customer's explicit request
(B) To become a member of all CICs within 1 year of the Act's commencement
(C) To seek RBI approval before sharing any data with a CIC
(D) To become a member of at least one CIC within 3 months of the Act's commencement

Ans :

(D) To become a member of at least one CIC within 3 months of the Act's commencement
Section 15(1) of the Credit Information Companies (Regulation) Act, 2005, mandates that every credit institution must become a member of at least one Credit Information Company (CIC) within 3 months from the commencement of the Act. Subsequently, all Credit Institutions are required to become members of all CICs and provide credit data as per the required format.

Oct/Nov 2019

12. A bank's duty to exercise reasonable care and diligence arises when it is acting in which of the following capacities for a customer?
(A) As a debtor only
(B) As an agent, bailee, or trustee
(C) As a creditor only
(D) As a regulator only

Ans :

(B) As an agent, bailee, or trustee
Beyond the debtor-creditor relationship, a bank often acts as an agent (e.g., collecting cheques), bailee (e.g., safe custody), or trustee for its customers. In these roles, the bank has a distinct duty of exercising reasonable care and diligence. If a customer suffers a loss due to the bank's improper care or negligence, they can claim specific damages.

May/June 2009

13. What is the immediate action a bank must take upon receiving a garnishee order from a court?
(A) Close the customer's account immediately
(B) Contact the customer to seek permission before acting
(C) Stop all debit operations in the specified account
(D) Transfer the entire balance to the court immediately

Ans :

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schemes that empower their branch managers to grant small clean overdrafts to customers whose account conduct and past dealings have been consistently satisfactory.

May/June 2011

59. Which certificate are banks required to provide to customers well within the time-frame prescribed under the Income Tax Rules?

(A) Form 15G/15H acknowledgement
(B) Form 16
(C) Form 16A
(D) Account Statement

Ans :

(C) Form 16A
When a bank deducts tax at source (TDS) on interest paid to customers (for example, on fixed deposits), it is obligated to issue a TDS certificate. The specific certificate for tax deducted on income other than salary is Form 16A. Banks must ensure they issue this certificate to customers within the timelines stipulated by the Income Tax Rules.

Oct/Nov 2021

60. What is the advised stance for banks when their staff are found to have connived with or assisted in offences punishable under the Income Tax Act?

(A) To view such instances with serious concern and initiate stern disciplinary action
(B) To treat it as a minor procedural lapse and issue a warning
(C) To provide legal assistance and support to the concerned staff member
(D) To wait for a formal directive from the Central Board of Direct Taxes to act

Ans :

(A) To view such instances with serious concern and initiate stern disciplinary action
Banks are expected to maintain high ethical standards and cooperate with tax authorities. The guidelines state that if any bank staff connive or assist in tax-related offences, the bank's management must view these actions with serious concern. This implies that strict internal disciplinary action should be taken in addition to any legal proceedings.

NODIA

CHAPTER 18

Duties & Rights of a Banker and Customer Rights

May/June 2016

1. What is the fundamental basis for a bank's duty of secrecy and confidentiality regarding a customer's account?

(A) The Banking Regulation Act, 1949
(B) An implied term in the contractual relationship
(C) The Reserve Bank of India Act, 1934
(D) A specific statutory provision for banking secrecy

Ans :

(B) An implied term in the contractual relationship
The relationship between a bank and a customer is contractual, and it carries an implied obligation to maintain secrecy and confidentiality about the customer's account affairs. This duty of non-disclosure is both contractual and legal, arising from the special nature of the debtor-creditor relationship established between the two parties, as per common law principles followed in India.

Oct/Nov 2025

2. Under which of the following circumstances is a bank NOT protected when disclosing a customer's account information?

(A) When disclosure is made based on a telephonic request from a government official
(B) When disclosure is under compulsion of a valid legal order
(C) When there is an express or implied consent from the customer for the disclosure
(D) When disclosure is required to protect a significant public interest

Ans :

(A) When disclosure is made based on a telephonic request from a government official
A bank is protected from liability for breaching confidentiality only under specific, legally permissible circumstances. These include compulsion of law, public interest, the bank's own interest, and customer consent. Disclosure based on an informal telephonic request, even from a government official, does not fall under these protected categories and would be a breach of the bank's duty.

May/June 2011

3. Consider the following statements regarding the exceptions to a bank's duty of secrecy:

1. Disclosure is permissible when required in the public interest.
2. Disclosure is permissible when the bank's own interest requires it.
3. Disclosure is permissible with the express or implied consent of the customer.

Which of the above statements are correct?

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
The duty of secrecy is qualified, not absolute. A bank is justified in disclosing customer information under four main conditions. These are: compulsion of law, duty to the public (public interest), requirement of the bank's own interest, and when the customer provides express or implied consent for the disclosure. All three statements represent valid exceptions to the rule.

Oct/Nov 2014

4. According to the Banker's Books Evidence Act, 1891, what can a bank provide in a legal dispute between its customer and a third party?

(A) The original, physical books of account only, requiring transport to court
(B) A verbal testimony from the branch manager without any documentation

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(C) A summary of the account transactions prepared by the bank's legal team
(D) Certified copies of entries in the bank's books

Ans :

(D) Certified copies of entries in the bank's books
As per Sections 4 and 6 of the Banker's Books Evidence Act, 1891, a bank can furnish certified copies of entries from its books. This avoids the need to produce the original books of account in court during a legal dispute between a customer and a third party, simplifying the evidence process while upholding the bank's operational continuity.

May/June 2024

5. What is the evidentiary value of certified copies of entries provided by a bank under the Banker's Books Evidence Act, 1891?
(A) They are considered conclusive proof of the transactions.
(B) They are admissible only if the original books are also produced.
(C) They are treated as prima facie evidence of the existence of such entries.
(D) They have no legal standing and are for informational purposes only.

Ans :

(C) They are treated as prima facie evidence of the existence of such entries.
The Act specifies that certified copies of entries from a bank's books shall be considered prima facie evidence. This means that, on the face of it, they are accepted as evidence of the existence of those entries, without requiring the bank to produce the original physical or digital records, unless the court specifically orders otherwise under special circumstances.

Oct/Nov 2007

6. What power do Civil and Criminal Courts possess that compels a bank to disclose customer information?
(A) The power to issue verbal instructions to bank staff
(B) The power to issue summons to produce documents or tender evidence
(C) The power to conduct a direct audit of the bank's records
(D) The power to appoint a court representative to manage the account

Ans :

(B) The power to issue summons to produce documents or tender evidence
Civil and Criminal Courts have the legal authority to issue summons to banks. These summons compel the bank to either produce specific documents related to a customer's account or have an official tender evidence in court proceedings. Banks are legally bound to comply with such notices, ensuring that the information provided is strictly confined to what is requested.

May/June 2005

7. Under which section of the Income Tax Act, 1961, are specified officers empowered to call for account information from banks?
(A) Section 226
(B) Section 4
(C) Section 6
(D) Section 133

Ans :

(D) Section 133
Section 133 of the Income Tax Act, 1961, vests power in the Income Tax Officer or specified higher officers to call for books of account or other documents from a bank. This action can be taken if they believe the information will be useful in any proceedings under the Act. The bank must furnish the specific information upon receiving a valid order.

Oct/Nov 2021

8. Which of the following is NOT an Act mentioned under which information can be called from a banker under compulsion of law?
(A) Indian Contract Act, 1872
(B) Companies Act, 2013
(C) Reserve Bank of India Act, 1934
(D) Foreign Exchange Management Act

Ans :

(A) Indian Contract Act, 1872
While the Indian Contract Act, 1872 governs the contractual relationship between the banker and customer, it is not listed as one of the specific statutes that compel a bank to furnish customer information to authorities. The other mentioned acts, such as the Companies Act, RBI Act, and FEMA, contain provisions allowing designated authorities to demand such information from banks.

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Ans :

(D) The bank should compensate the customer up to a limit, as part of a Board-approved policy.
The RBI advises a customer-centric approach even when the bank is not directly at fault. In cases where the fault is elsewhere in the payment ecosystem, the bank is still expected to compensate the customer. This compensation may be up to a certain limit and should be part of a Board-approved customer relations policy.

May/June 2017

55. An internal investigation at a bank branch confirms that a staff member has committed a fraud, resulting in an erroneous debit from Mr. Gupta's account. What is the immediate obligation of the branch as per RBI guidelines?
(A) To at once acknowledge its liability and pay the just claim to Mr. Gupta.
(B) To wait for Mr. Gupta to file a formal police complaint before taking action.
(C) To suspend the staff member and await the outcome of internal disciplinary action.
(D) To file an insurance claim and pay Mr. Gupta only after the claim has been settled.

Ans :

(A) To at once acknowledge its liability and pay the just claim to Mr. Gupta.
The guideline is unequivocal in cases of proven staff irregularity or fraud. If the branch is convinced that its staff was involved, it should not delay. The branch must immediately acknowledge its liability for the fraudulent transaction and compensate the customer by paying the just claim without making the customer wait for further proceedings.

Oct/Nov 2008

56. What is the prescribed rule for rounding off all transactions, including the payment of interest?
(A) Fractions less than 50 paise are ignored, and fractions of 50 paise and above are rounded up.
(B) All fractions of a rupee are to be ignored.
(C) All fractions of a rupee are to be rounded up to the next rupee.
(D) Fractions are rounded to the nearest 10 paise.

Ans :

(A) Fractions less than 50 paise are ignored, and fractions of 50 paise and above are rounded up.
For the sake of convenience and standardization in accounting, a clear rule for rounding off is provided. All transactions must be rounded to the nearest rupee. This means any fractional amount less than 50 paise is to be ignored, while any fractional amount of 50 paise or more is to be rounded off to the next higher rupee.

May/June 2024

57. Read the excerpt below:
"All transactions, including payment of interest on deposits/charging of interest on advances, should be rounded off to the nearest rupee i.e., fractions of 50 paise and above shall be rounded off to the next higher rupee and fraction of less than 50 paise shall be ignored."
How would a calculated interest amount of ₹245.49 be treated?
(A) It would be rounded up to ₹246.00
(B) It would be ignored completely
(C) It would be rounded down to ₹245.00
(D) It would be paid as ₹245.50

Ans :

(C) It would be rounded down to ₹245.00
The rule states that a fraction of less than 50 paise shall be ignored. In the amount of ₹245.49, the fractional part is 49 paise, which is less than 50 paise. Therefore, this fraction is ignored, and the amount to be paid or charged is rounded down to the nearest rupee, which is ₹245.00.

Oct/Nov 2013

58. What is the guideline regarding the grant of small-amount clean overdrafts?
(A) They are strictly prohibited for all customers to minimize overall credit risk.
(B) They can only be granted to high-turnover corporate or business customers.
(C) They require prior approval from the Reserve Bank of India on a case-by-case basis.
(D) Banks may devise schemes to permit branch managers to grant them to customers with satisfactory dealings.

Ans :

(D) Banks may devise schemes to permit branch managers to grant them to customers with satisfactory dealings.
To provide flexibility and meet the minor, temporary funding needs of reliable customers, banks are encouraged to be proactive. The guidelines suggest that banks can formulate

NODIA

(C) Stop all debit operations in the specified account

Upon receipt of a garnishee order, a bank is legally prohibited from honouring cheques or allowing any other debits from the customer's account. The bank's immediate duty is to stop all debit operations in the attached account and promptly intimate the customer about the order and the resulting stoppage of account operations, as instructed by the court.

Oct/Nov 2011

14. If a garnishee order is for a specific amount that is less than the total credit balance in the customer's account, what is the appropriate procedure for the bank?

(A) Freeze the entire account until the court provides further instructions.

(B) Return the garnishee order to the court, stating that the balance exceeds the specified amount.

(C) Pay the specified amount to the customer in cash and freeze the rest of the account.

(D) Transfer the specified amount to a sundry deposit account and permit operations in the remaining balance.

Ans :

(D) Transfer the specified amount to a sundry deposit account and permit operations in the remaining balance.

When a garnishee order is for a limited amount, which is less than the account balance, the bank should segregate the attached funds. The correct procedure is to transfer the amount specified in the order to a sundry deposit account for eventual payment to the court. After this, normal operations can be permitted for the remaining balance in the account.

May/June 2010

15. How does a garnishee order issued in a single name affect accounts held in joint names by the judgement debtor?

(A) It does not apply to accounts in the joint names of the judgement debtor with another person.

(B) It applies to all joint accounts where the debtor is one of the holders.

(C) It applies only to the debtor's proportional share in the joint account.

(D) It freezes the joint account, but only credits are permitted.

Ans :

(A) It does not apply to accounts in the joint names of the judgement debtor with another person.

A garnishee order is specific in its application. An order issued in a single individual's name does not attach to funds held in a joint account with another person or persons. However, if the order is issued in joint names, it will apply to the individual accounts of those same debtors as well, demonstrating the precise nature of the order.

Oct/Nov 2024

16. In the absence of a specific agreement with the customer, on what basis is a bank entitled to charge interest or commission?

(A) As per the discretion of the branch manager

(B) As per the market practice prevailing for the facilities or services

(C) As per the maximum rate prescribed by the RBI

(D) As per a flat rate applicable to all customers

Ans :

(B) As per the market practice prevailing for the facilities or services

While interest and commission rates are normally based on terms agreed upon with the customer, if no such agreement exists, the bank has a right to charge for its services. In such cases, the bank is entitled to levy interest or commission based on the prevailing market practice for the specific facility or service in question.

May/June 2017

17. Which of the following is a valid reason for the voluntary termination of a bank-customer relationship by the customer?

(A) The bank declaring a lower-than-expected annual profit for the year

(B) Dissatisfaction with the bank's service or a change of residence

(C) A change in the bank's senior management or board of directors

(D) The bank introducing a new loan product that the customer is not interested in

Ans :

(B) Dissatisfaction with the bank's service or a change of residence

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(D) All 1, 2, 3, and 4

Ans :

(B) 1, 2 and 3 only
The display of service charges at branches must include a list of services provided free of charge. It must also detail other charges for common transactions, such as penalties for non-maintenance of minimum balance, charges for outstation cheque collection, demand draft issuance, account statements, and charges for transactions at ATM locations. Penal interest on loans is a separate disclosure.

May/June 2014

47. How should customer education be viewed in the context of improving customer service?
(A) As an optional marketing activity to be undertaken if branch resources permit
(B) As a primary marketing tool to promote new high-margin banking products
(C) As a fundamental issue concerning customers' rights and responsibilities
(D) As a compliance requirement to be met simply by displaying brochures in the branch

Ans :

(C) As a fundamental issue concerning customers' rights and responsibilities
The guidelines emphasize that customer education should be treated as a fundamental and integral part of any effort to improve customer service. It's not just about services, but about making customers aware of their rights, responsibilities, and the necessary formalities, procedures, and legal requirements, empowering them to interact with the bank more effectively and securely.

Oct/Nov 2005

48. An 85-year-old customer is bedridden and completely unable to sign or even provide a thumb impression due to physical incapacity. He needs to withdraw money from his account. As per the IBA's opinion, how can the bank facilitate this transaction?
(A) The withdrawal form can be authenticated by a mark, such as a toe impression, placed using an instrument that had physical contact with him.
(B) The bank can only process the transaction if a court-appointed guardian is physically present.
(C) The transaction cannot be processed under any circumstances, and the account must be made inoperative.
(D) The transaction can be processed based on a verbal instruction given over a verified video call with two witnesses.

Ans :

(A) The withdrawal form can be authenticated by a mark, such as a toe impression, placed using an instrument that had physical contact with him.
For customers with extreme physical incapacity who cannot even provide a thumb impression, the IBA has provided guidance. The signature requirement can be met by a mark, which could be a toe impression or a mark made by an instrument that has been in physical contact with the person, placed on their behalf in any manner.

May/June 2020

49. Banks are advised to offer all banking facilities to visually impaired persons without discrimination. These facilities include all of the following EXCEPT:
(A) Cheque book facility including third party cheques
(B) ATM and Net banking facilities
(C) Unsecured clean overdrafts
(D) Retail loans and credit cards

Ans :

(C) Unsecured clean overdrafts
The guidelines explicitly state that visually impaired persons, being legally competent to contract, should be offered banking facilities like cheque books, ATM, net banking, lockers, retail loans, and credit cards without discrimination. While banks may offer clean overdrafts to customers with satisfactory dealings, it is not listed as a specifically mandated facility for all visually impaired persons.

Oct/Nov 2012

50. To assist persons with low vision, what are all bank branches required to provide?
(A) Magnifying glasses
(B) Audio-guided transaction menus at counters
(C) Large print versions of all forms
(D) Designated counters with brighter lighting

Ans :

(A) Magnifying glasses

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(D) July 1, 2006

Ans :

(A) February 18, 2006
The BCSBI was established as an institutional mechanism to improve banking services. It was formally registered as a separate society under the Societies Registration Act, 1860, on February 18, 2006. This marked the official beginning of its role as an independent watchdog for the banking industry to ensure adherence to promised standards of customer service.

May/June 2022

23. Which of the following were the main objectives of the Banking Codes and Standards Board of India (BCSBI)?
1. To publish comprehensive Codes and Standards for fair treatment of customers.
2. To act as a quasi-judicial body for penalizing banks for service deficiencies.
3. To function as an independent body to monitor adherence to the Codes.
4. To directly handle and resolve individual customer complaints.

Select the correct combination:
(A) 1 and 3
(B) 2 and 4
(C) 1 and 4
(D) 2 and 3

Ans :

(A) 1 and 3
The primary objectives of BCSBI were twofold: first, to plan, develop, and publish comprehensive Codes and Standards to ensure banks provided fair treatment to customers. Second, it was designed to function as an independent and autonomous body to monitor and ensure that member banks adhered to these adopted codes in both letter and spirit while delivering services.

Oct/Nov 2023

24. What are the two codes that were evolved and issued by BCSBI in collaboration with the Indian Banks' Association (IBA)?
(A) Code of Customer Rights and Code of Digital Banking
(B) Code of Fair Lending Practices and Code of Grievance Redressal
(C) Code of Ethics for Bankers and Code of Conduct for Customers
(D) Code of Bank's Commitment to Customers and Code of Bank's Commitment to Micro and Small Enterprises

Ans :

(D) Code of Bank's Commitment to Customers and Code of Bank's Commitment to Micro and Small Enterprises
In partnership with the Indian Banks' Association (IBA), BCSBI developed two specific codes. The first was the 'Code of Bank's Commitment to Customers' (issued in 2006), and the second was the 'Code of Bank's Commitment to Micro and Small Enterprises' (released in 2008). These codes set out minimum standards of service for these specific customer segments.

May/June 2007

25. The operations of BCSBI related to the objects of its Trust were discontinued effective from which date, following advice from the RBI?
(A) February 18, 2006
(B) November 1, 2003
(C) April 1, 2019
(D) May 31, 2022

Ans :

(C) April 1, 2019
In February 2019, the RBI opined that the functions of BCSBI were being handled departmentally within the RBI itself. Consequently, the RBI advised BCSBI to take steps for its dissolution. Following this directive, BCSBI discontinued all operations related to its objectives and trust, with the discontinuation becoming effective from April 1, 2019, marking the end of its operational existence.

Oct/Nov 2006

26. Following the dissolution of BCSBI, which department did RBI set up to enhance consumer protection?
(A) Department of Banking Supervision (DBS)
(B) Consumer Education and Protection Department (CEPD)
(C) Financial Inclusion and Development Department (FIDD)
(D) Department of Payment and Settlement Systems (DPSS)

Ans :

(B) Consumer Education and Protection Department (CEPD)

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(C) Only after obtaining a specific order from a competent court permitting the disclosure.
(D) Yes, because disclosure to a guarantor for recovery of dues is in the bank's own interest.

Ans :

(D) Yes, because disclosure to a guarantor for recovery of dues is in the bank's own interest.
A bank is protected from a breach of secrecy when it discloses information in its own interest. Furnishing details of a defaulted loan account to the guarantor is essential for the bank to enforce the guarantee and recover its dues. This act is considered a necessary step in the recovery process and is a recognized exception to the confidentiality rule.

Oct/Nov 2023

58. Mrs. Verma's mother, who held a savings account, passes away. The account has a nomination in favour of Mrs. Verma. The bank has been formally notified of the death. A cheque for ₹5,000 issued by the deceased before her death is presented for payment. What should the bank do?
(A) Dishonour the cheque with the reason "Drawer Deceased".
(B) Honour the cheque as it was issued before the customer's death.
(C) Contact Mrs. Verma and ask for her permission to pay the cheque.
(D) Pay the cheque and debit the amount from the funds payable to the nominee.

Ans :

(A) Dishonour the cheque with the reason "Drawer Deceased".
A banker's authority to pay cheques drawn by a customer is revoked upon receiving notice of the customer's death. Regardless of when the cheque was issued, if it is presented after the bank has been notified of the death, it must be returned unpaid. The appropriate reason for dishonour in this situation is "Drawer Deceased".

May/June 2019

59. A bank decides to close the account of XYZ Corp. because its business activities are deemed a high reputational risk for the bank. What is the essential step the bank must take to terminate this relationship lawfully?
(A) Immediately freeze the account and transfer the entire balance to the Reserve Bank of India.
(B) Publish a public notice in a major newspaper announcing the termination of the relationship.
(C) Send a formal letter to XYZ Corp. providing reasonable notice of the account closure.
(D) File a suspicious transaction report with the Financial Intelligence Unit (FIU) and await their instructions.

Ans :

(C) Send a formal letter to XYZ Corp. providing reasonable notice of the account closure.
While a bank has the right to terminate a relationship it finds undesirable, it cannot do so abruptly. The principles of natural justice and fair practice require the bank to give the customer reasonable notice before closing the account. This allows the customer time to make alternative arrangements and ensures the termination process is orderly and procedurally correct.

Oct/Nov 2022

60. Mr. Joshi, a bank customer, receives a call from someone claiming to be from the bank's fraud prevention unit, who asks him to confirm his debit card number, CVV, and a recently received OTP to "block a fraudulent transaction". Based on his obligations, what should Mr. Joshi do?
(A) Refuse to provide any personal or account-related information like OTP and disconnect the call.
(B) Provide the information as requested to help the bank secure his account.
(C) Ask the caller for their employee ID and then provide the details.
(D) Provide the card number but refuse to share the OTP.

Ans :

(A) Refuse to provide any personal or account-related information like OTP and disconnect the call.
A customer has a strict obligation "not to provide any personal or account related information, including User ID password, OTP, etc. to any one purporting to call on behalf of the bank." Banks never ask for such sensitive details over the phone. The correct action is to refuse the request, disconnect, and if concerned, independently contact the bank using official contact numbers.

NODIA

May/June 2025

31. Which of the following represents a key commitment undertaken by member banks under the BCSBI codes?
(A) To guarantee loan approval for all applicants
(B) To offer the lowest interest rates in the industry
(C) To provide financial advice on stock market investments
(D) To act fairly and reasonably in all dealings with target customers

Ans :

(D) To act fairly and reasonably in all dealings with target customers
A fundamental pledge within the BCSBI codes is the commitment by banks to act fairly and reasonably in all their interactions with customers. This principle underpins many other specific commitments, such as providing clear information, dealing sympathetically with problems, and maintaining confidentiality, forming the ethical foundation of the bank's relationship with its customers.

Oct/Nov 2009

32. Assertion (A): Under the BCSBI codes, member banks commit to treat all personal information of customers as private and confidential.
Reason (R): This commitment is absolute and prevents the bank from sharing customer information with credit information companies (CICs) under any circumstances.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is NOT the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(C) A is true but R is false.
Assertion (A) is true as treating customer information as private and confidential is a key commitment under the codes. However, Reason (R) is false because this duty is not absolute. Banks are legally required by statutes like the Credit Information Companies (Regulation) Act, 2005, to share credit data with CICs, which is a recognized exception to the confidentiality rule.

May/June 2023

33. Under the Information Transparency commitment of the BCSBI codes, what specific service have banks undertaken to register for customers at the start of the relationship?
(A) Mobile banking service
(B) E-statement service
(C) 'Do not call' service
(D) Positive Pay service

Ans :

(C) 'Do not call' service
As part of their commitment to transparency and respecting customer privacy, banks have undertaken to register the 'Do not call' service for customers when the relationship begins. This is intended to protect customers from unsolicited marketing calls from the bank, thereby giving them control over the communication they receive and preventing intrusive marketing practices.

Oct/Nov 2008

34. According to the grievance redressal mechanism outlined in the chapter, who should a customer approach after the help desk/branch if their issue is not resolved?
(A) The Ombudsman
(B) The Indian Banks' Association (IBA)
(C) The Reserve Bank of India's CEPD
(D) The Code Compliance Officer of the bank

Ans :

(D) The Code Compliance Officer of the bank
The prescribed escalation path for grievance redressal is structured. The customer should first approach the branch's help desk. If the issue remains unresolved, the next step is to escalate it to the bank's Code Compliance Officer, who is located at a controlling office above the branch level. The Ombudsman is the final step in this sequence.

May/June 2006

35. What is the nature of the obligation placed on customers by the codes brought out by BCSBI?
(A) The codes do not put any obligation on the part of the customers.
(B) They are legally binding obligations and are enforceable in a court of law.
(C) They are mandatory requirements that must be fulfilled prior to opening a bank account.

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(D) They require customers to maintain a specified minimum balance at all times.

Ans :

(A) The codes do not put any obligation on the part of the customers.
The BCSBI codes represent a unilateral commitment from the banks towards their customers. The acceptance of these codes is a voluntary initiative by a bank. The text explicitly states that "The codes brought out by BCSBI do not put any obligation on the part of the customers," as they are designed to define the bank's responsibilities, not the customer's.

Oct/Nov 2017

36. Which of the following is identified as an important obligation of a customer towards their bank?
(A) To participate in the bank's annual general meeting
(B) To keep the passbook, cheque book, and debit card safely
(C) To provide feedback on every new product launched
(D) To maintain a social media account and follow the bank's page

Ans :

(B) To keep the passbook, cheque book, and debit card safely
While the BCSBI codes do not impose obligations, customers have certain duties arising from legal and regulatory requirements. One of the most important obligations is to ensure the physical security of sensitive items provided by the bank. This includes safely keeping the passbook, cheque book, and debit card to prevent misuse, fraud, and unauthorized access to the account.

May/June 2008

37. What is the customer's duty regarding unauthorized transactions noticed in their account?
(A) To wait for the bank to detect and rectify the error.
(B) Dissatisfaction with the bank's service or a change of residence
(C) To file a police complaint before contacting the bank.
(D) To attempt to reverse the transaction themselves through the app.

Ans :

(B) To inform the bank promptly about the transaction.
A critical obligation of the customer is to monitor their account and report any discrepancies without delay. Promptly informing the bank about any unauthorized transaction noticed is crucial. This allows the bank to take immediate steps to investigate the matter, prevent further losses, and initiate necessary security measures like blocking a card or freezing the account.

Oct/Nov 2013

38. A customer receives an email that appears to be from their bank, with a link asking them to update their personal information, including their password and OTP. What is the customer's obligation in this situation?
(A) Not to click on any such link received through emails or SMS.
(B) To click the link and verify their details for security purposes.
(C) To forward the email to friends to warn them.
(D) To call the bank's marketing department to check the offer.

Ans :

(A) Not to click on any such link received through emails or SMS.
To ensure information technology security, customers have a clear obligation not to click on links received via unsolicited emails, SMS, or other messages, especially those asking for sensitive information. This is a primary defense against phishing attacks, where fraudsters create fake websites to steal credentials. The correct practice is to access the bank's website by typing the URL directly.

May/June 2015

39. To ensure the security of online banking, what is a customer's obligation regarding their password and PIN?
(A) To use the same password for all online services for easy recall.
(B) To share the PIN with a trusted family member for emergencies.
(C) To change their online banking password and PIN regularly.
(D) To write it down and keep it in their wallet for convenience.

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Ans :

(C) To change their online banking password and PIN regularly.

As part of their duties related to account security, customers are obligated to take proactive measures to protect their credentials. One such important measure is to change their online banking password and Personal Identification Number (PIN) on a regular basis. This practice helps to mitigate the risk of unauthorized access if the credentials have been compromised unknowingly.

Oct/Nov 2020

40. In the event that a customer's ATM Card, Debit Card, or Credit Card is lost or stolen, what is their immediate obligation?

(A) To request the bank to block the card immediately
(B) To wait for 24 hours to see if it is found
(C) To file a First Information Report (FIR) with the police
(D) To visit the branch in person during working hours

Ans :

(A) To request the bank to block the card immediately

When a card is lost or stolen, time is of the essence to prevent fraudulent use. The customer's primary and most urgent obligation is to contact the bank through any available channel (phone, app, internet banking) and request an immediate block on the card. This action prevents any further transactions and limits the customer's potential liability for losses.

May/June 2019

41. Match the legal provision with the authority it grants.

	List-I (Legal Provision)		**List-II (Granted Authority/Action)**
P.	Banker's Books Evidence Act, 1891	1.	Empowers specified tax officers to call for bank documents
Q.	Section 133, Income Tax Act, 1961	2.	Compels banks to produce documents or tender evidence
R.	Credit Information Companies (Regulation) Act, 2005	3.	Allows providing certified copies as prima facie evidence
S.	Summons by Courts	4.	Mandates banks to provide credit data to CICs.

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-3, Q-1, R-4, S-2

The Banker's Books Evidence Act allows certified copies as evidence (P-3). Section 133 of the Income Tax Act empowers tax officers to call for documents (Q-1). The CICRA Act mandates sharing credit data with CICs (R-4). Summons from courts are legal orders compelling banks to produce documents or evidence (S-2). This matching aligns each legal provision with its correct function.

Oct/Nov 2022

42. Consider the following statements regarding the termination of a bank-customer relationship:

1. A bank can close a customer's account for unsatisfactory conduct without any prior intimation.
2. On receiving notice of a customer's death, the bank must stop all debit and credit transactions immediately.

Which of the above statements is/are correct?

(A) 1 only
(B) 2 only
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(D) Neither 1 nor 2

Both statements are incorrect. Statement 1 is false because a bank must give reasonable notice to the customer before closing an account for unsatisfactory conduct. Statement 2 is false because while debit transactions are stopped upon notice of death, credits to the account can still be permitted. The account is frozen only for withdrawals by the deceased.

NODIA

are specifically mentioned as additional areas of coverage under the Code of Bank's Commitment to Micro and Small Enterprises.

May/June 2023

51. Read the following excerpt and answer the question:

"As per Sections 4 and 6 of the Banker's Books Evidence Act, 1891, in a legal dispute between a bank's customer and third party, certified copies of entries in the bank's books may be called for, which shall be prima facie evidence of the existence of such entries in the bank's books (without producing the original books of account)."

Based on the excerpt, what is the primary purpose of this provision?

(A) To allow third parties unrestricted access to customer accounts.
(B) To establish certified copies as indisputable proof in all legal cases.
(C) To mandate that banks must produce original books of account in every legal dispute.
(D) To facilitate the evidence process in court without disrupting bank operations by requiring original records.

Ans :

(D) To facilitate the evidence process in court without disrupting bank operations by requiring original records.

The excerpt clearly states that certified copies can be used "without producing the original books of account." This indicates the provision's main purpose is to provide a convenient and legally acceptable way for banks to furnish evidence for legal disputes. It avoids the logistical challenge and operational disruption of having to present original, bulky ledgers or primary data servers in court.

Oct/Nov 2018

52. Read the following excerpt and answer the question:

"In terms of Section 15(1) of Credit Information Companies (Regulation) Act, 2005, every credit institution has to become a member of at least one Credit Information Company within a period of three months from commencement of the Act and provide credit data in the format as required..."

What obligation does this section impose on a credit institution?

(A) It must get customer consent before becoming a member of any CIC.
(B) It must join a CIC within a specific timeframe and subsequently supply data.
(C) It can choose whether or not to join a CIC based on its business policy.
(D) It must provide credit data only for customers who have defaulted on loans.

Ans :

(B) It must join a CIC within a specific timeframe and subsequently supply data.

The excerpt explicitly lays out a two-part legal obligation. First, the credit institution must become a member of at least one CIC. Second, this membership must be established within a defined period of "3 months from commencement of the Act." It also implies the ongoing duty to "provide credit data," making it a mandatory procedural requirement.

May/June 2012

53. Read the following excerpt and answer the question:

"The BCSBI was registered as a separate society under the Societies Registration Act, 1860 on 18th February 2006. It was an independent banking industry watch dog to ensure that the consumers of banking services get what they are promised by the banks."

What was the fundamental role of BCSBI as described in this passage?

(A) To set interest rates for all member banks.
(B) To act as an enforcement agency with powers to fine banks.
(C) To function as an oversight body holding banks accountable for their service promises.
(D) To provide direct financial compensation to aggrieved customers.

Ans :

(C) To function as an oversight body holding banks accountable for their service promises.

The passage defines BCSBI as an "independent banking industry watch dog." Its stated purpose was "to ensure that the consumers of banking services get what they are promised by the banks." This clearly positions BCSBI's role as one of monitoring and oversight, ensuring that banks adhere to the service standards they have publicly committed to, rather than direct enforcement or compensation.

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3. To treat all personal information as private and confidential.
4. To adopt and practice a non-discrimination policy.
5. To guarantee the profitability of a customer's investments.

Which of the above are actual commitments mentioned?
(A) 1, 2, 3, and 5
(B) 1, 2, 3, and 4
(C) 2, 3, 4, and 5
(D) 1, 3, 4, and 5

Ans :

(B) 1, 2, 3, and 4
The key commitments listed under the codes include acting fairly, dealing with issues sympathetically, maintaining confidentiality, and practicing non-discrimination. Guaranteeing investment profitability is not a commitment made by banks under these codes, as all investments carry market risks. Therefore, statements 1, 2, 3, and 4 are the correct commitments mentioned in the chapter.

Oct/Nov 2025

48. A bank's duty of secrecy is qualified and not absolute. Which of the following is NOT one of the four legally permissible circumstances for disclosure?
(A) Disclosure based on a request from the customer's employer
(B) Disclosure under compulsion of law
(C) Disclosure in the interest of the bank itself
(D) Disclosure where there is a duty to the public to disclose

Ans :

(A) Disclosure based on a request from the customer's employer
The four recognized exceptions to the duty of secrecy are compulsion of law, public interest, the bank's own interest, and the customer's consent. A request from a customer's employer does not fall into any of these categories and is not a legally permissible reason for a bank to disclose confidential account information without the customer's explicit consent.

May/June 2016

49. Assertion (A): A bank can close a customer's account if it finds the customer undesirable.
Reason (R): The bank must provide a reasonable notice to the customer before closing the account on such grounds.
(A) Both A and R are true and R is the correct explanation of A.
(B) Both A and R are true but R is NOT the correct explanation of A.
(C) A is true but R is false.
(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.
Assertion (A) is true; a bank has the right to terminate its relationship with a customer for valid reasons, such as finding them undesirable. Reason (R) is also true and provides the correct procedure for this action. The bank cannot act unilaterally and instantly; it must give the customer a reasonable notice, making R the correct explanation for the process described in A.

Oct/Nov 2009

50. Match the service area with the relevant BCSBI Code.

List-I (Service Area)			List-II (Applicable Code)
P.	Factoring services	1.	Primarily covered under Code of Bank's Commitment to Customers
Q.	Safe deposit lockers		
R.	Foreign exchange services	2.	Specifically mentioned as an additional area in the Code of Bank's Commitment to MSEs
S.	Merchant Services		

(A) P-2, Q-1, R-1, S-2
(B) P-1, Q-2, R-2, S-1
(C) P-2, Q-1, R-2, S-1
(D) P-1, Q-1, R-1, S-2

Ans :

(A) P-2, Q-1, R-1, S-2
Safe deposit lockers (Q) and foreign exchange services (R) are core banking services covered under the general Code of Bank's Commitment to Customers. Factoring services (P) and Merchant Services (S) are specialized business services that

After deciding to dissolve BCSBI, the RBI took several steps to strengthen the consumer protection framework internally. This included the establishment of the Consumer Education and Protection Department (CEPD), the issuance of the Charter of Customer Rights (CoCR), and the strengthening of the Ombudsman mechanism to carry forward the mandate of enhancing consumer protection in the banking sector.

May/June 2021

27. What is the central objective of the two codes issued by BCSBI?
(A) To maximize bank profitability by standardizing all service charges across the industry
(B) To reduce the operational burden on banks through the mandatory automation of all services
(C) To create a new legally binding contract between the bank and the customer, superseding all other laws
(D) To promote good banking practices, increase transparency, and foster a cordial banker-customer relationship

Ans :

(D) To promote good banking practices, increase transparency, and foster a cordial banker-customer relationship
The core purpose of the BCSBI codes was to improve the overall quality of banking services. This was to be achieved by promoting good practices, setting minimum service standards, increasing transparency in operations, and aiming for higher operating standards. Ultimately, these efforts were directed at fostering a more cordial and trust-based relationship between bankers and their customers.

Oct/Nov 2016

28. Which of the following services is NOT explicitly listed as being covered under the 'Code of Bank's Commitment to Customers'?
(A) Investment advisory services
(B) Deposit accounts
(C) Safe deposit lockers
(D) Loans and advances and guarantees

Ans :

(A) Investment advisory services
The 'Code of Bank's Commitment to Customers' outlines minimum service standards for a range of common banking products. The explicitly mentioned areas include deposit accounts, safe deposit lockers, settlement of deceased account holders' accounts, foreign exchange services, remittances, loans and advances, guarantees, credit cards, and internet banking. Investment advisory services are not specifically listed in this context.

May/June 2014

29. The Code of Bank's Commitment to Micro and Small Enterprises provides protection to MSEs as defined in which Act?
(A) The Companies Act, 2013
(B) The SARFAESI Act, 2002
(C) The MSMED Act, 2006
(D) The Indian Partnership Act, 1932

Ans :

(C) The MSMED Act, 2006
The code specifically designed for Micro and Small Enterprises (MSEs) sets minimum banking practice standards for dealing with this sector. It provides protection to MSEs and clarifies how banks should interact with them. The definition of which entities qualify as Micro and Small Enterprises for the purpose of this code is taken from the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.

Oct/Nov 2018

30. In addition to the areas covered by the Customer Code, the MSE Code is also applicable to which of the following services?
(A) Letters of Credit, Bills, and Factoring services
(B) Salary accounts and pension payments
(C) Personal overdrafts and consumer durables loans
(D) Mutual fund investments and insurance products

Ans :

(A) Letters of Credit, Bills, and Factoring services
The Code of Bank's Commitment to Micro and Small Enterprises covers all aspects of the general customer code. In addition, its scope is expanded to include services that are particularly relevant to businesses. These additional services specifically mentioned are Letters of Credit, Bills, Factoring services, and Merchant Services, addressing the unique trade and finance needs of MSEs.

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Oct/Nov 2006

54. Read the following excerpt and answer the question:

"Every member bank is required to: Have a help desk/helpline at the branch. Have a code compliance officer at each controlling office above the level of the branch. Display, at each branch, name and contact number of the code compliance officer. Display name and address of the Ombudsman."

What is the final point of escalation for a grievance mentioned in this specific list of requirements?

(A) The help desk
(B) The branch manager
(C) The code compliance officer
(D) The Ombudsman

Ans :

(D) The Ombudsman

The excerpt lists the infrastructure and information a bank must provide for grievance redressal. It mentions the help desk, the code compliance officer, and the contact details for the Ombudsman. In this hierarchy, the requirement to display the name and address of the Ombudsman signifies that this is the highest level of the redressal mechanism mentioned in this specific context.

May/June 2021

55. Read the following excerpt and answer the question:

"However, the customers when using the bank's services have certain duties towards the bank. Some of these duties arise from the legal and regulatory requirements related to various types of banking services... Certain important obligations... are: (a) To provide the required documents and information, including personal information for KYC."

What is the origin of the customer's obligation to provide KYC documents, as per the excerpt?

(A) It arises from legal and regulatory requirements governing banking services.
(B) It is a voluntary good practice recommended by the bank.
(C) It is an obligation imposed by the BCSBI codes.
(D) It is part of the bank's internal marketing policy.

Ans :

(A) It arises from legal and regulatory requirements governing banking services.

The excerpt explicitly states that customer duties, distinct from the bank's commitments under the codes, "arise from the legal and regulatory requirements related to various types of banking services." It then lists providing KYC information as the first example of such an obligation, directly linking this duty to the legal and regulatory framework governing the banking sector.

NODIA

Oct/Nov 2010

56. A bank receives a garnishee order for ₹40,000 on Mr. Kumar's savings account, which has a credit balance of ₹1,00,000. Mr. Kumar is unaware of this order and presents a cheque for ₹25,000. What is the most appropriate course of action for the bank?

(A) Honour the cheque for ₹25,000 and freeze the remaining ₹75,000 in the account.
(B) Transfer ₹40,000 to a sundry deposit account, and then honour the cheque from the remaining ₹60,000.
(C) Dishonour the cheque for ₹25,000 and freeze the entire account balance of ₹1,00,000.
(D) Contact the court by phone to seek verbal permission before honouring the cheque.

Ans :

(B) Transfer ₹40,000 to a sundry deposit account, and then honour the cheque from the remaining ₹60,000.

When a garnishee order is for a limited amount less than the balance, the correct procedure is to segregate the amount under attachment. The bank should internally transfer ₹40,000 to a sundry account for the court. The remaining balance of ₹60,000 is free from the order, so the cheque for ₹25,000 can be honoured from these funds.

May/June 2022

57. Mr. Sharma, a guarantor for a loan taken by Mr. Gupta, approaches the bank. Mr. Gupta has defaulted on the loan. Mr. Sharma requests a full statement of Mr. Gupta's loan account to understand the extent of his liability. Can the bank provide this information?

(A) No, as providing any information would breach the absolute duty of secrecy owed to Mr. Gupta.
(B) Only if Mr. Gupta provides a fresh written consent for this specific disclosure to his guarantor.

May/June 2005

43. Which of the following is an INCORRECT statement regarding a Garnishee Order?
(A) It prohibits the bank from honouring cheques drawn on the customer's account.
(B) It can be issued by a court or by Income Tax Authorities.
(C) It does not have a prospective operation on a new account opened after its receipt.
(D) If issued in a single name, it automatically attaches to funds in a joint account held by that person.

Ans :

(D) If issued in a single name, it automatically attaches to funds in a joint account held by that person.
A Garnishee Order issued in a single name does not apply to accounts held in the joint names of the judgement debtor with another person. The order's scope is precise. All other statements are correct: it stops debits, can be issued by courts or tax authorities, and does not prospectively apply to new accounts unless a fresh order is served.

Oct/Nov 2024

44. Identify the correct chronological order of the following events related to BCSBI.
1. Release of the Code of Bank's Commitment to Micro and Small Enterprises.
2. Constitution of the S.S. Tarapore Committee.
3. Discontinuation of BCSBI's operations.
4. Registration of BCSBI as a society.

(A) 2, 4, 1, 3
(B) 1, 2, 4, 3
(C) 2, 1, 4, 3
(D) 4, 2, 1, 3

Ans :

(A) 2, 4, 1, 3
The correct sequence is: The S.S. Tarapore Committee was constituted in November 2003 (2). Based on its recommendations, BCSBI was registered as a society on February 18, 2006 (4). The MSE Code was released on May 31, 2008 (1). Finally, BCSBI discontinued its operations effective April 1, 2019 (3).

May/June 2011

45. Identify the INCORRECT pair from the following customer obligations.
(A) Card Safety : Storing card details and PIN in mobile wallet for easy access
(B) Account Security : Keeping User ID and password confidential
(C) Fraud Prevention : Not clicking on links in phishing emails
(D) Transaction Verification : Informing the bank promptly of unauthorized transactions

Ans :

(A) Card Safety : Storing card details and PIN in mobile wallet for easy access
A key customer obligation for card safety is to safeguard sensitive data. Storing important banking data like card details or PINs in a mobile phone, email, or physical wallet is explicitly advised against. The other pairs correctly match the obligation with the corresponding responsible action, such as maintaining credential confidentiality, avoiding phishing links, and promptly reporting unauthorized transactions.

Oct/Nov 2014

46. Which of the following statements about the BCSBI codes is INCORRECT?
(A) The codes set minimum standards of banking practices for member banks.
(B) The codes impose legally enforceable duties on the customers.
(C) The codes are a unilateral commitment by the bank to its customers.
(D) RBI continues to evaluate bank customer service based on the norms of these codes.

Ans :

(B) The codes impose legally enforceable duties on the customers.
The BCSBI codes are a voluntary initiative and a unilateral commitment from banks to uphold certain service standards. They explicitly do not impose any obligations on customers. While customers have duties arising from other legal requirements, these codes are focused solely on the bank's responsibilities. The other statements about the codes' nature and continued relevance for RBI monitoring are correct.

May/June 2007

47. Consider the following key commitments under the BCSBI Codes:
1. To act fairly and reasonably in all dealings.
2. To deal quickly and sympathetically with things that go wrong.

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CHAPTER 19

Grievance Redressal & RBI Integrated Ombudsman Scheme 2021

NODIA

May/June 2012

1. According to the introductory principles of grievance management, which of the following best describes a 'grievance'?

(A) A suggestion for improving the bank's operational efficiency.

(B) A feeling of being aggrieved about a bank's product, service, or procedure.

(C) Any formal legal notice served to a bank by a customer.

(D) A request for a new financial product or service not currently offered.

Ans :

(B) A feeling of being aggrieved about a bank's product, service, or procedure.

A grievance is defined as a situation where a person feels aggrieved about the product or services rendered by a bank, or due to certain procedures and systems. It is a feeling of dissatisfaction or a problem that requires resolution. Not resolving a grievance can become a cause of worry for the banker later on.

Oct/Nov 2023

2. The Banking Ombudsman Scheme, which serves as an alternate grievance redress mechanism for customer complaints against banks, was first introduced by the RBI in which year?

(A) 1995

(B) 2019

(C) 2021

(D) 2018

Ans :

(A) 1995

The Reserve Bank of India has undertaken various initiatives over the years for grievance redressal. The Banking Ombudsman Scheme was a significant step in this direction, introduced in the year 1995 to serve as an alternate grievance redress mechanism. It has been amended several times since its inception to enhance its effectiveness and scope.

May/June 2005

3. In 2019, the Reserve Bank of India introduced a specific system available 24 × 7 for customers to lodge their complaints with the Banking Ombudsman. What is this system called?

(A) Online Dispute Resolution (ODR)

(B) Central Receipts and Processing Centre (CRPC)

(C) Complaint Management System (CMS)

(D) Integrated Grievance Management System (IGMS)

Ans :

(C) Complaint Management System (CMS)

To streamline the process of lodging complaints, the Reserve Bank introduced the Complaint Management System (CMS) in 2019. This system is available 24 × 7, providing customers with a single window to lodge their complaints with the Banking Ombudsman. It marked a significant technological advancement in the grievance redressal landscape for banking customers.

Oct/Nov 2016

4. Which of the following is NOT a stated principle of the Model Policy on Grievance Redressal for banks?

(A) Customers will be treated fairly at all times.

(B) Employees will work in good faith and without prejudice to the interests of the customer.

(C) Customers will be informed of avenues to escalate their complaints if not fully satisfied.

(D) Complaints will be resolved in favour of the customer, irrespective of the rules.

Ans :

(D) Complaints will be resolved in favour of the customer, irrespective of the rules.

The model policy is based on principles of fairness, courtesy, timeliness, and acting in good faith. It requires redressal to be just, fair, and within the given framework of rules and regulations. It does not mandate resolving complaints in the customer's favour irrespective of the rules, but rather ensures a fair and structured evaluation.

May/June 2021

5. As per the guidelines on customer awareness and facilitation, what information must banks provide to customers regarding their internal grievance handling arrangements?
(A) The direct and personal contact details of the bank's Chief Executive Officer.
(B) The name and contact information of the primary law firm representing the bank.
(C) Where to complain, how to complain, and whom to approach for redressal.
(D) A detailed profit and loss statement specific to the concerned branch's operations.

Ans :

(C) Where to complain, how to complain, and whom to approach for redressal.
Banks are required to inform customers about their internal arrangements for handling complaints. This includes providing clear information on key aspects such as where to make a complaint, the procedure for making a complaint, the expected timeline for a reply, the escalation matrix, and what to do if the customer is not satisfied with the outcome.

Oct/Nov 2009

6. To ensure proper documentation and acknowledgement, banks are advised to maintain a complaint book as per the format prescribed by which body?
(A) Reserve Bank of India (RBI)
(B) Indian Banks' Association (IBA)
(C) Securities and Exchange Board of India (SEBI)
(D) Ministry of Finance

Ans :

(B) Indian Banks' Association (IBA)
The guidelines specify that a complaint book as per the IBA format should be kept at bank offices. This book should have perforated copies in each set, allowing one copy to be provided to the customer as an acknowledgement and another to be sent to the Controlling Office for monitoring and follow-up action on the complaint.

May/June 2024

7. According to the complaint redressal mechanism, if a complaint is not resolved at the branch level, within how many days of its receipt should it be referred to the Regional/Zonal Office?
(A) 3 days
(B) 15 days
(C) 30 days
(D) 7 days

Ans :

(D) 7 days
The internal grievance redressal mechanism follows a clear escalation path. If a matter cannot be satisfactorily resolved at the branch level, it must be referred, along with the branch's comments and suggestions, to the next level in the hierarchy, which is the Regional or Zonal Office, within a period of 7 days of receiving the complaint.

Oct/Nov 2018

8. When a bank communicates the final redressal of a complaint to a customer, what crucial information must it also include?
(A) The right to approach the Ombudsman within one year if not satisfied.
(B) A formal, written apology signed by the Branch Manager.
(C) A promotional discount coupon applicable to future banking services.
(D) A copy of the bank's most recent annual performance report.

Ans :

(A) The right to approach the Ombudsman within one year if not satisfied.
All communications sent to the customer regarding the redressal of their complaint must explicitly state that if the customer is not satisfied with the bank's response, they have the right to approach the Ombudsman. This communication should also specify the timeline, which is within 1 year of the date of receipt of the bank's response.

May/June 2007

9. As per the Payment System Vision-2021, RBI advised authorised Payment System Operators (PSOs) and their participants (PSPs) to implement

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which system for resolving disputes related to failed transactions?
(A) Manual Complaint Processing System
(B) Integrated Ombudsman Scheme (IOS)
(C) Online Dispute Resolution (ODR) System
(D) Customer Relationship Management (CRM) System

Ans :

(C) Online Dispute Resolution (ODR) System
The Payment System Vision-2021 emphasized the need for technology-driven and transparent dispute redressal. Consequently, in August 2020, RBI advised PSOs and PSPs to establish an Online Dispute Resolution (ODR) system. This system is designed specifically for resolving disputes and grievances related to failed transactions in their respective payment systems, ensuring a customer-friendly process.

Oct/Nov 2025

10. For complaints related to unauthorised electronic transactions, what is the maximum period within which the complaint must be resolved and the customer's liability established, as per the bank's Board approved policy?
(A) 90 days from the date of receipt of the complaint.
(B) 30 days from the date of the transaction.
(C) 45 days from the date of receipt of the complaint.
(D) 60 days from the date of the transaction.

Ans :

(A) 90 days from the date of receipt of the complaint.
For complaints concerning unauthorised electronic transactions, the bank must resolve the issue and determine the customer's liability, if any, within the timeline specified in its Board-approved policy. This period must not exceed 90 days from the date the complaint is received. If not resolved within this timeframe, the customer must be compensated as per RBI norms.

May/June 2014

11. How should disputes arising out of lending decisions be handled as per the internal redressal mechanism guidelines?
(A) They should be immediately referred to the Ombudsman.
(B) They should be handled exclusively by the Branch Manager.
(C) They should be settled through an external arbitration agency.
(D) They should be heard and disposed of at least at the next higher level.

Ans :

(D) They should be heard and disposed of at least at the next higher level.
For credit facilities-related complaints, the Board of Directors is required to establish an appropriate internal redressal mechanism. A key aspect of this mechanism is that disputes originating from lending decisions must be escalated, heard, and disposed of at a level that is at least one step higher than the level where the decision was made.

Oct/Nov 2022

12. Assertion (A): RBI has mandated granular disclosures by banks in their annual reports regarding customer complaints.
Reason (R): These disclosures provide customers and the public with greater insight into the volume, nature, and turnaround time of complaint redressal.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The framework for strengthening grievance redressal replaced earlier disclosure requirements with a set of granular disclosures in annual reports. The explicit purpose of this change, as stated in the reason, is to offer greater transparency to customers and the public regarding the bank's complaint handling performance, including volume, nature, quality, and turnaround time of redress.

May/June 2019

13. Which of the following is NOT a specified ground of complaint for the purpose of disclosure in a bank's annual report?
(A) Mis-selling/Para-banking
(B) Staff behaviour
(C) Employee-employer disputes
(D) Non-observance of Fair Practices Code

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Ans :

(C) Employee-employer disputes
The framework specifies a detailed list of grounds for complaint disclosure to provide public insight into customer service issues. This list includes areas like ATM/Debit Cards, credit cards, staff behaviour, and mis-selling. However, disputes related to the employee-employer relationship within the bank are an internal administrative matter and not included in this customer-centric disclosure list.

Oct/Nov 2006

14. For the purpose of recovering the cost of redress from banks, on what basis are peer groups of banks identified?
(A) Based on the number of branches in metropolitan areas.
(B) Based on the profitability of banks in the last financial year.
(C) Based on the number of employees in each bank.
(D) Based on the asset size of banks as on March 31 of the previous year.

Ans :

(D) Based on the asset size of banks as on March 31 of the previous year.
To ensure a fair comparison, the RBI framework specifies that peer groups are to be created based on the asset size of the banks as recorded on March 31 of the preceding financial year. This allows for the computation of a peer group average for maintainable complaints, against which individual bank performance is measured for cost recovery purposes.

May/June 2010

15. The peer group average of maintainable complaints received in Ombudsman Offices (OBOs) is computed on 3 specific metrics. Which of the following is NOT one of those metrics?
(A) Average number of maintainable complaints per employee.
(B) Average number of maintainable complaints per branch.
(C) Average number of maintainable complaints per 1,000 accounts.
(D) Average number of maintainable digital complaints per 1,000 digital transactions.

Ans :

(A) Average number of maintainable complaints per employee.
The cost recovery framework uses 3 metrics to calculate the peer group average: complaints per branch, complaints per 1,000 total accounts (deposit and credit), and digital complaints per 1,000 digital transactions. The number of employees is not a specified metric for this calculation, as the focus is on operational scale and transaction volume rather than staffing levels.

Oct/Nov 2010

16. What is the minimum rank for a Principal Nodal Officer that banks are required to appoint under the Ombudsman Scheme?
(A) Chief Manager
(B) General Manager
(C) Assistant General Manager
(D) Deputy General Manager

Ans :

(B) General Manager
To ensure that customer grievances receive senior-level attention, banks are mandated to appoint a Principal Nodal Officer. The guidelines explicitly state that this officer must not be below the rank of a General Manager. This ensures the officer has sufficient authority to oversee the grievance redressal mechanism and interact effectively with various departments and the Ombudsman's office.

May/June 2025

17. The Internal Ombudsman (IO) Scheme, 2018, requires certain banks to appoint an IO. Which category of banks is excluded from this requirement?
(A) Scheduled Commercial Banks
(B) Regional Rural Banks (RRBs)
(C) Public Sector Banks
(D) Private Sector Banks

Ans :

(B) Regional Rural Banks (RRBs)
In September 2018, the RBI issued the revised 'Internal Ombudsman Scheme, 2018'. This scheme mandates that scheduled banks having more than 10 banking outlets must appoint an Internal Ombudsman (IO). However, the scheme specifically excludes Regional Rural Banks (RRBs) from this requirement, regardless of the number of outlets they have.

NODIA

Oct/Nov 2024

18. What is the primary role of the Internal Ombudsman (IO), also designated as the Chief Customer Service Officer (CCSO)?

(A) To examine customer complaints that are partly or wholly rejected by the bank.
(B) To lead and conduct the annual internal audit of the bank's finances.
(C) To serve as the final authority for approving high-value credit proposals.
(D) To exclusively mediate and resolve staff-related grievances within the bank.

Ans :

(A) To examine customer complaints that are partly or wholly rejected by the bank.
The Internal Ombudsman acts as an independent authority within the bank to review customer complaints. The IO's main function is to examine complaints related to deficiency in service that the bank's internal machinery has either partly or wholly rejected. This provides an appellate review before the customer approaches the external Banking Ombudsman.

May/June 2017

19. The RBI - Integrated Ombudsman Scheme, 2021 (IOS 2021) integrated 3 separate ombudsman schemes. Which of the following was NOT one of them?

(A) The Banking Ombudsman Scheme, 1995
(B) The Ombudsman Scheme for Non-banking Financial Companies, 2018
(C) The Ombudsman Scheme for Insurance, 1998
(D) The Ombudsman Scheme for Digital Transactions, 2019

Ans :

(C) The Ombudsman Scheme for Insurance, 1998
In November 2021, the RBI created a single, unified scheme called the IOS 2021. This omnibus scheme integrated 3 existing schemes administered by the RBI: the Banking Ombudsman Scheme, the NBFC Ombudsman Scheme, and the Digital Transactions Ombudsman Scheme. The Insurance Ombudsman scheme is separate and is not regulated by the RBI.

Oct/Nov 2005

20. The Integrated Ombudsman Scheme, 2021 adopts a specific approach to centralize the complaint lodging process. What is this approach called?

(A) 'One Bank One Ombudsman'
(B) 'One State One Ombudsman'
(C) 'One Customer One Complaint'
(D) 'One Nation One Ombudsman'

Ans :

(D) 'One Nation One Ombudsman'
A key feature of the Integrated Ombudsman Scheme, 2021 is the 'One Nation One Ombudsman' approach. This principle centralizes the receipt of complaints at a single point, the Central Receipt and Processing Centre (CRPC), eliminating the need for the complainant to identify the correct jurisdictional Ombudsman office, thereby simplifying the entire process for the customer.

May/June 2020

21. Under the IOS 2021, Non-Scheduled Primary Co-operative Banks are also covered if they meet a specific criterion. What is this criterion?

(A) A deposit size of ₹10 crore and above.
(B) A business mix of ₹100 crore and above.
(C) A deposit size of ₹50 crore and above.
(D) An asset size of ₹25 crore and above.

Ans :

(C) A deposit size of ₹50 crore and above.
The Integrated Ombudsman Scheme, 2021 expanded its coverage significantly. It brought Non-Scheduled Primary Co-operative Banks under its purview, provided they have a deposit size of ₹50 crore and above. This inclusion ensures that customers of these larger co-operative banks also have access to the formal, cost-free grievance redressal mechanism provided by the RBI.

Oct/Nov 2015

22. What is the maximum tenure for which an officer can be appointed as an Ombudsman or Deputy Ombudsman at a time?

(A) 1 year
(B) 3 years
(C) 2 years
(D) 5 years

Ans :

(B) 3 years
The organizational arrangements for the Ombudsman scheme are made by the RBI. The RBI may appoint its officers as Ombudsmen or Deputy Ombudsmen to carry out the functions under the scheme. These appointments are made for a maximum period of 3 years at a time,

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(B) The RE must display information about the scheme at its branches, offices, and ATMs.
(C) The RE must conduct its own internal audit of the Ombudsman's office.
(D) The RE must facilitate the smooth conduct of the scheme by adhering to its requirements.

Ans :

(C) The RE must conduct its own internal audit of the Ombudsman's office.
Regulated Entities are required to cooperate with the scheme by appointing a Nodal Officer, displaying information, and adhering to its provisions. However, the Ombudsman's office is part of the RBI's administrative structure. The RE has no authority or responsibility to conduct an audit of the Ombudsman's office; this oversight is handled by the RBI itself.

Oct/Nov 2008

42. Match the following items related to the RBI Integrated Ombudsman Scheme, 2021.
List-I (Concept)
P. Centralized complaint receipt
Q. Appellate Authority
R. Maximum compensation for mental anguish
S. Time to accept an Award
List-II (Detail)
1. Executive Director, RBI
2. ₹1 lakh
3. CRPC, Chandigarh
4. 30 days
(A) P-3, Q-1, R-2, S-4
(B) P-1, Q-3, R-4, S-2
(C) P-3, Q-2, R-1, S-4
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-3, Q-1, R-2, S-4
P. Centralized complaint receipt is handled by the CRPC in Chandigarh. Q. The Appellate Authority is the Executive Director of the concerned RBI department. R. The maximum compensation for mental anguish is capped at ₹1 lakh. S. The complainant has 30 days to accept an Award. Therefore, the correct matching is P-3, Q-1, R-2, S-4.

May/June 2012

43. Consider the following statements about the Internal Ombudsman (IO) / Chief Customer Service Officer (CCSO):
I. The person appointed as CCSO should not have worked in the same bank previously.
II. The IO is a forum available to customers after they have approached the RBI Ombudsman.
III. The implementation of the IO Scheme is monitored by the bank's internal audit mechanism.
Which of the above statements is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Ans :

(C) I and III only
The person appointed as CCSO must be external to the bank to ensure impartiality. The IO is an internal appellate forum available before a customer approaches the RBI Ombudsman, not after. The implementation of the scheme is indeed monitored by the bank's internal audit and regulatory oversight by RBI. Thus, statements I and III are correct.

Oct/Nov 2023

44. Which of the following pairs concerning grievance redressal timelines is incorrectly matched?
(A) Referral from Branch to Zonal Office: Within 7 days
(B) Resolution of unauthorised transaction complaint: Not exceeding 90 days
(C) Waiting period for bank's reply before approaching Ombudsman: 30 days
(D) Filing appeal with Appellate Authority: Within 60 days

Ans :

(D) Filing appeal with Appellate Authority: Within 60 days
The time limit for filing an appeal with the Appellate Authority is 30 days from the date of receipt of the Award or order of rejection. The AA may allow a further period not exceeding 30 days, but the initial standard period is 30 days, not 60 days. The other timelines listed are correctly stated.

May/June 2005

45. A complaint is NOT maintainable before the Ombudsman if the same cause of action is already pending before or has been dealt with on merits

NODIA

a suggestion or seeks a general explanation is treated as:
(A) Valid and Maintainable
(B) Not Maintainable
(C) Requiring Mediation
(D) Not Valid

Ans :

(D) Not Valid
The CRPC performs an initial check to determine the nature of the complaint. If a complaint is found to be merely offering a suggestion, seeking guidance, or asking for an explanation rather than pointing out a specific deficiency in service, it is categorized as 'not valid'. Such complaints are closed, and the complainant is advised accordingly.

Oct/Nov 2020

28. What is the first and most preferred method of complaint resolution at the Ombudsman's office?
(A) Passing a binding Award.
(B) Agreement through Facilitation.
(C) Agreement through Mediation and Conciliation.
(D) Rejection of the complaint.

Ans :

(B) Agreement through Facilitation.
The primary objective of the Ombudsman is to resolve matters in a mutually acceptable manner. The scheme outlines a preferential order for resolution. The first preference is always given to facilitating a discussion between the complainant and the regulated entity to arrive at a mutual and amicable agreement, which is the simplest and quickest form of resolution.

May/June 2022

29. A complaint before the Ombudsman is deemed to be resolved under all the following conditions EXCEPT:
(A) The complainant has withdrawn the complaint voluntarily.
(B) It has been settled by the regulated entity with the complainant.
(C) The Ombudsman has issued an ex-parte order against the bank.
(D) The complainant has agreed in writing that the resolution is satisfactory.

Ans :

(C) The Ombudsman has issued an ex-parte order against the bank.
A complaint is considered resolved when a mutually agreeable outcome is reached. This can be through settlement by the bank, a written agreement of satisfaction from the complainant, or voluntary withdrawal of the complaint. An ex-parte order is a procedural step taken when a party fails to respond; it leads to an Award, not a resolution by agreement.

Oct/Nov 2014

30. If a regulated entity fails to file its written response to the Ombudsman within the stipulated or extended time, what are the consequences?
I. The Ombudsman proceeds ex-parte based on available evidence.
II. The regulated entity loses its right of appeal in respect of the Award.
III. The complaint is automatically closed in favor of the regulated entity.
(A) Only I
(B) Only III
(C) Only II and III
(D) Only I and II

Ans :

(D) Only I and II
Failure by a regulated entity to respond within the given timeframe has serious consequences. The Ombudsman is empowered to proceed with the case ex-parte, meaning a decision will be made based on the evidence provided by the complainant alone. Furthermore, the regulated entity forfeits its right to appeal any subsequent Award passed in the matter.

May/June 2016

31. What is the maximum compensation that can be awarded by the Ombudsman for consequential loss suffered by a complainant, which is directly caused by the bank's act or omission?
(A) ₹20 lakh
(B) ₹1 lakh
(C) ₹10 lakh
(D) No ceiling

Ans :

(A) ₹20 lakh
The Ombudsman's Award can include compensation for various losses. For consequential loss that arises directly from the bank's act of omission or commission, the

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compensation is limited to the extent of the actual loss suffered by the complainant, with an overall ceiling of ₹20 lakh. This is distinct from the actual amount in dispute.

Oct/Nov 2007

32. An Ombudsman's Award may direct a regulated entity to pay compensation for loss of time, expenses incurred, harassment, and mental anguish. What is the maximum ceiling for this type of compensation?
(A) ₹50,000
(B) ₹1 lakh
(C) ₹2 lakh
(D) ₹5 lakh

Ans :

(B) ₹1 lakh
In addition to compensation for the disputed amount and consequential loss, the Ombudsman can award compensation for the trouble caused to the complainant. This includes factors like loss of time, expenses incurred, harassment, and mental anguish. The maximum amount that can be awarded under this specific category is capped at ₹1 lakh.

May/June 2023

33. After an Award is passed, what is the time limit for the complainant to provide a letter of acceptance to the regulated entity?
(A) 15 days from receiving the Award.
(B) 30 days from receiving the Award.
(C) 45 days from the date of the Award.
(D) 60 days from the date of the Award.

Ans :

(B) 30 days from receiving the Award.
Once an Award is issued, the complainant has a specific timeframe to act. They must provide a letter to the regulated entity, accepting the Award in full and final settlement of the complaint, within 30 days of receiving their copy of the Award. If they fail to do so and have not filed an appeal, the Award will lapse.

Oct/Nov 2019

34. Who functions as the Appellate Authority (AA) for appeals against the decisions of the Ombudsman under the IOS 2021?
(A) The Executive Director in-Charge of the RBI Department administering the Scheme.
(B) The serving Governor of the Reserve Bank of India.
(C) The specific Deputy Governor overseeing consumer protection and education.
(D) A specially appointed retired judge from the Supreme Court of India.

Ans :

(A) The Executive Director in-Charge of the RBI Department administering the Scheme.
The scheme provides for an appeal mechanism. The designated Appellate Authority (AA) for hearing appeals against an Award or an order of rejection by the Ombudsman is the Executive Director of the Reserve Bank of India who is in-charge of the specific department that administers the Integrated Ombudsman Scheme.

May/June 2009

35. A regulated entity wishes to appeal against an Ombudsman's Award. What is the mandatory prerequisite for filing such an appeal?
(A) Depositing the full disputed award amount in an escrow account with the RBI.
(B) Obtaining written and notarized consent from the original complainant.
(C) Obtaining prior sanction from its Chairman, MD/CEO, or equivalent.
(D) Publishing the formal intent to appeal in at least one national newspaper.

Ans :

(C) Obtaining prior sanction from its Chairman, MD/CEO, or equivalent.
While both parties can appeal, a regulated entity faces an additional procedural requirement. It can only file an appeal against an Ombudsman's Award after obtaining the prior sanction of its Chairman, Managing Director, Chief Executive Officer, or, in their absence, an Executive Director or official of equal rank, ensuring top management oversight.

Oct/Nov 2011

36. Which of the following is considered a valid ground for non-maintainability of a complaint before the Ombudsman?
(A) A complaint about non-payment of a cheque.
(B) A complaint about excessive charges levied without prior notice.
(C) A complaint about deficiency in mobile banking services.
(D) A complaint regarding a commercial judgment or decision of a Regulated Entity.

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Ans :

(D) A complaint regarding a commercial judgment or decision of a Regulated Entity.
The Ombudsman's scope is limited to deficiency in service and does not extend to the commercial decisions of a bank. Matters such as credit sanctioning policies or pricing of products, which fall under the bank's commercial judgment, are specifically listed as grounds for non-maintainability and are outside the Ombudsman's purview.

May/June 2018

37. A complaint will not be maintainable if the complainant has not first approached the regulated entity. What is the specified time the complainant must wait for the entity's reply before approaching the Ombudsman?
(A) 15 days
(B) 45 days
(C) 30 days
(D) 60 days

Ans :

(C) 30 days
A fundamental condition for a complaint to be maintainable is that the customer must first give the regulated entity an opportunity to resolve the issue. If the entity rejects the complaint, or if the customer receives no reply within 30 days of the entity receiving the complaint, only then can the customer escalate the matter to the Ombudsman.

Oct/Nov 2017

38. A customer receives a final reply from their bank on May 15, 2023, but is not satisfied. What is the latest date by which they must file a complaint with the Ombudsman for it to be maintainable?
(A) June 14, 2023
(B) May 14, 2024
(C) June 14, 2024
(D) May 15, 2025

Ans :

(B) May 14, 2024
The scheme sets a clear limitation period for approaching the Ombudsman. The complaint must be made within 1 year from the date of receipt of the reply from the regulated entity. Therefore, if the reply was received on May 15, 2023, the complaint must be filed with the Ombudsman on or before May 14, 2024.

May/June 2008

39. An Ombudsman may reject a complaint at any stage for several reasons. Which of the following is a valid reason for such a rejection?
(A) The bank has already admitted its mistake and offered a settlement.
(B) The total compensation amount being sought by the complainant is very small.
(C) The complainant is a senior citizen who requires special assistance.
(D) The complaint requires consideration of elaborate documentary and oral evidence.

Ans :

(D) The complaint requires consideration of elaborate documentary and oral evidence.
The proceedings before the Ombudsman are summary in nature and not suitable for complex cases requiring extensive evidence like a civil court. If the Ombudsman opines that a complaint requires consideration of elaborate documentary and oral evidence, it can be rejected on the grounds that the forum is not appropriate for the adjudication of such a complaint.

Oct/Nov 2013

40. To whom does the Ombudsman submit a report every year, as on March 31st, containing a general review of the office's activities?
(A) The Deputy Governor of the RBI
(B) The Finance Minister of India
(C) The Chairman of the Indian Banks' Association
(D) The President of India

Ans :

(A) The Deputy Governor of the RBI
For accountability and oversight, each Ombudsman is required to send an annual report to the Deputy Governor of the Reserve Bank of India. This report, prepared as on March 31st each year, provides a general review of the activities undertaken by that Ombudsman's office during the preceding financial year, along with any other information required by RBI.

May/June 2006

41. Identify the incorrect statement regarding the responsibilities of a Regulated Entity (RE) under the Integrated Ombudsman Scheme.
(A) The RE must appoint a Principal Nodal Officer of at least General Manager rank.

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ensuring a balance between experience and rotation of officials in this key role.

May/June 2013

23. Under the Integrated Ombudsman Scheme, 2021, where are all complaints initially received and processed, regardless of the location of the bank branch?
(A) The RBI Head Office in Mumbai.
(B) The respective jurisdictional Ombudsman office.
(C) The head office of the concerned regulated entity.
(D) The Central Receipts and Processing Centre (CRPC) in Chandigarh.

Ans :

(D) The Central Receipts and Processing Centre (CRPC) in Chandigarh.
The IOS 2021 introduced a significant change by establishing the Central Receipts and Processing Centre (CRPC) in Chandigarh. Unlike the previous system where complaints were filed with the jurisdictional Ombudsman, all complaints under the new scheme are first received and processed at the CRPC, which then forwards them to the concerned Ombudsman for resolution.

Oct/Nov 2021

24. A customer can file a complaint with the CRPC through various modes. Which of the following is NOT a permissible mode for filing a complaint?
(A) Social media platforms (e.g., Twitter, Facebook)
(B) Online portal (cms.rbi.org.in)
(C) Electronic mode (e.g., e-mail)
(D) Physical mode (by post/courier or hand delivery)

Ans :

(A) Social media platforms (e.g., Twitter, Facebook)
The scheme specifies formal channels for lodging a complaint to ensure proper documentation and tracking. A person can file a complaint with the CRPC through the dedicated online portal, via electronic means like email, or in physical form through post, courier, or hand delivery. Social media platforms are not recognized as formal channels for this purpose.

May/June 2015

25. An authorized representative can file a complaint on behalf of the aggrieved person. However, the scheme explicitly excludes one category of professional from acting as a representative, unless they are the aggrieved person themselves. Who is this?
(A) A Chartered Accountant
(B) A Company Secretary
(C) An Advocate
(D) A family member

Ans :

(C) An Advocate
A key feature of the Ombudsman scheme is to provide an inexpensive and straightforward redressal mechanism. To maintain this, the scheme specifies that a complainant can represent themselves or be represented by an authorized person, but not an advocate. An advocate can only lodge a complaint if they are the aggrieved party in their personal capacity.

Oct/Nov 2012

26. Under what circumstances is the Ombudsman permitted to share confidential information or documents obtained during a complaint proceeding?
(A) When required by law, or with the consent of the provider, or for natural justice.
(B) When officially requested by a major media outlet for a public news report.
(C) When the regulated entity agrees to offer a significantly higher compensation.
(D) At the sole personal discretion of the Ombudsman for any non-specified reason.

Ans :

(A) When required by law, or with the consent of the provider, or for natural justice.
The Ombudsman is bound by a duty of confidentiality regarding information and documents received. Disclosure is strictly limited to specific situations: when mandated by law, when the person who provided the information consents to its sharing, or when disclosure to the parties is necessary to ensure the principles of natural justice and fair play are upheld.

NODIA

May/June 2011

27. At the preliminary scrutiny stage, the CRPC categorizes complaints. A complaint that offers

by any other forum. Which of the following is an EXCEPTION to this rule?
(A) A case pending before a Consumer Court.
(B) A matter settled by an Arbitrator.
(C) A criminal proceeding pending or decided before a Court.
(D) A case decided on merits by another Ombudsman.

Ans :

(C) A criminal proceeding pending or decided before a Court.
The scheme prevents forum-shopping by making complaints non-maintainable if they are pending or decided elsewhere. However, it explicitly excludes criminal proceedings. This means that if a police investigation or a criminal court case is ongoing for an offense related to the grievance (e.g., fraud), the customer can still file a complaint with the Ombudsman for deficiency in service.

Oct/Nov 2016

46. Identify the correct chronological order of the introduction of the following RBI initiatives:
I. Complaint Management System (CMS)
II. Banking Ombudsman Scheme
III. Integrated Ombudsman Scheme (IOS)
IV. Framework for Strengthening Grievance Redress Mechanism
(A) I, II, IV, III
(B) II, IV, I, III
(C) IV, II, III, I
(D) II, I, IV, III

Ans :

(D) II, I, IV, III
The Banking Ombudsman Scheme (II) was the earliest, introduced in 1995. The Complaint Management System (I) came in 2019. The comprehensive framework for strengthening grievance redress (IV) was put in place in January 2021. Finally, the three separate schemes were merged into the Integrated Ombudsman Scheme (III) in November 2021.

May/June 2021

47. Consider the powers of the Ombudsman and Deputy Ombudsman.
Statement I: The Deputy Ombudsman has the power to close complaints that are not maintainable as per the scheme's rules.
Statement II: Only the Ombudsman has the power to pass an Award for complaints that are not settled through facilitation or mediation.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is true, but Statement II is false.
(D) Statement I is false, but Statement II is true.

Ans :

(A) Both Statement I and Statement II are true.
The scheme delineates the powers between the Ombudsman and Deputy Ombudsman. The Deputy Ombudsman can handle the closure of non-maintainable complaints and those settled through facilitation. However, the authority to pass a formal Award for complaints that could not be resolved amicably rests solely with the Ombudsman, highlighting a clear hierarchy of powers.

Oct/Nov 2009

48. A complaint is filed with the Ombudsman regarding a dispute over the interest rate applied on a loan, which the bank argues is as per its approved credit policy and commercial judgment. How is the Ombudsman likely to treat this complaint?
(A) Pass an award in favor of the customer.
(B) Reject it as non-maintainable.
(C) Mediate for a lower interest rate.
(D) Refer the matter for criminal investigation.

Ans :

(B) Reject it as non-maintainable.
The Ombudsman's jurisdiction is for 'deficiency in service' and not for questioning the 'commercial judgment' of a regulated entity. The determination of interest rates as per a board-approved policy falls under the bank's commercial decisions. Therefore, such a complaint would be deemed non-maintainable and rejected by the Ombudsman as it falls outside the scheme's scope.

May/June 2024

49. A bank's Grievance Redressal Policy document is intended to ensure better customer service and general awareness. Where should this policy document be made available?
(A) Only at the Head Office.
(B) At all branches of the bank.
(C) Only on the bank's website.
(D) Only in the welcome kit for new customers.

NODIA

error, what is the maximum compensation for this specific loss that the Ombudsman can award?
(A) ₹1 lakh
(B) ₹25 lakh
(C) ₹20 lakh
(D) ₹26 lakh (₹25 lakh + ₹1 lakh for anguish)

Ans :

(C) ₹20 lakh
The source clearly specifies the monetary limits for different types of compensation. While the actual disputed amount has no ceiling, compensation for consequential loss is capped. Even if the proven loss is ₹25 lakh, the Ombudsman's power to award compensation under the "consequential loss" category is restricted to the maximum ceiling of ₹20 lakh.

Oct/Nov 2010

58. "Peer groups based on the asset size of banks as on March 31 of the previous year are identified, and peer group averages of maintainable complaints received in OBOs computed on the following: average number of maintainable complaints per branch; average number of maintainable complaints per 1,000 accounts (total of deposit and credit accounts); and average number of maintainable digital complaints per 1,000 digital transactions executed through the bank by its customers."
According to the source, which factor is used to create peer groups for comparing complaint data?
(A) Asset size of the bank.
(B) Number of digital transactions.
(C) Number of branches.
(D) Total number of accounts.

Ans :

(A) Asset size of the bank.
The provided text explicitly states that "Peer groups based on the asset size of banks as on March 31 of the previous year are identified." The other items listed, such as complaints per branch or per 1,000 accounts, are the metrics used for calculating the average within these pre-defined, asset-size-based peer groups.

May/June 2025

59. "In November 2021, RBI integrated all the three Schemes into one omnibus Ombudsman Scheme, viz. The Reserve Bank - Integrated Ombudsman Scheme, 2021 (IOS 2021) to cover all entities regulated by RBI... The Scheme also includes under its ambit Non-Scheduled Primary Co-operative Banks with a deposit size of Rs. 50 crore and above. The Scheme adopts 'One Nation One Ombudsman' approach."

Based on the text, which statement about the IOS 2021 is correct?
(A) It applies only to Scheduled Commercial Banks and NBFCs.
(B) It was introduced in November 2020 and covers banks with deposits over ₹100 crore.
(C) It replaced the 'One Nation One Ombudsman' approach with a decentralized system.
(D) It created a new 'One Nation One Ombudsman' approach and covers certain Co-operative Banks.

Ans :

(D) It created a new 'One Nation One Ombudsman' approach and covers certain Co-operative Banks.
The source directly supports this statement. It mentions that the IOS 2021, introduced in November 2021, adopts the 'One Nation One Ombudsman' approach. It also explicitly states that the scheme's ambit was expanded to include Non-Scheduled Primary Co-operative Banks that have a deposit size of ₹50 crore and above.

Oct/Nov 2024

60. "A complainant approached the BO alleging that the bank was not returning original title deeds kept as security for the housing loan availed, even though the loan had been fully paid... The BO observed that losing original Title Deed was a serious lapse... The bank was, therefore, advised to give the complainant a certificate advising the loss... insert an advertisement in the local newspaper at their cost... directed to pay compensation of ₹25,000 to the complainant for deficiency in service."
What was the bank directed to do in the case of the lost title deeds?
(A) Only pay a compensation of ₹25,000.
(B) Issue a certificate, publish a newspaper ad, and pay ₹25,000 compensation.
(C) Only issue a certificate of loss and provide certified copies.
(D) Re-issue new original title deeds to the customer.

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Both statements are factually correct based on the scheme's rules. A bank loses its right to appeal if it fails to furnish documents, leading to an ex-parte award. Separately, any appeal by a bank requires top management sanction. However, the requirement for management sanction (R) is a general rule for all appeals and not the specific reason for losing the right to appeal in cases of non-cooperation (A).

Oct/Nov 2022

54. A complaint is filed regarding the behaviour of a bank's recovery agent. On which of the specified grounds for disclosure would this complaint be categorized?
(A) Staff behaviour
(B) Recovery Agents/Direct Sales Agents
(C) Non-observance of Fair Practices Code
(D) Mis-selling/Para-banking

Ans :

(B) Recovery Agents/Direct Sales Agents
The RBI has specified a granular list of grounds for complaint disclosure to enhance transparency. Complaints related to the conduct of third-party agents engaged by the bank, such as recovery agents or direct sales agents (DSAs), are categorized under a specific head: "Recovery Agents/Direct Sales Agents," distinct from general "Staff behaviour" which pertains to the bank's own employees.

May/June 2019

55. A customer's complaint regarding a failed ATM transaction remains unresolved for 45 days. The customer then approaches the Ombudsman. The bank argues the complaint is premature. What would be the likely outcome?
(A) The Ombudsman will reject the complaint as the customer did not wait for 90 days.
(B) The Ombudsman will direct the customer to file the complaint again after 30 more days.
(C) The Ombudsman will close the complaint as it is an ODR system matter.
(D) The Ombudsman will accept the complaint as maintainable.

Ans :

(D) The Ombudsman will accept the complaint as maintainable.
A complaint becomes maintainable if it is not resolved by the regulated entity to the customer's satisfaction or if no reply is received within 30 days of the complaint being lodged. Since 45 days have passed without a reply or resolution, the customer has met the prerequisite and is well within their rights to approach the Ombudsman.

Oct/Nov 2006

56. "The Payment System Vision-2021 of RBI highlights the need for technology-driven, rule-based, customer-friendly and transparent dispute redressal systems. As a step in this direction, in August 2020, RBI advised authorised Payment System Operators (PSOs) – banks and non-banks – and their participants (PSPs) to put in place system/s for Online Dispute Resolution (ODR) system for resolving disputes and grievances of customers related to failed transactions..."
Based on the source, what was the primary driver for the introduction of the Online Dispute Resolution (ODR) system?
(A) The need for a system as highlighted in the RBI's Payment System Vision-2021.
(B) A directive from the Ministry of Finance to digitize all complaints.
(C) An increase in complaints related to staff behaviour.
(D) The integration of the three ombudsman schemes into one.

Ans :

(A) The need for a system as highlighted in the RBI's Payment System Vision-2021.
The provided text explicitly states that the RBI's Payment System Vision-2021 highlighted the need for a technology-driven and transparent dispute redressal system. The introduction of the ODR system in August 2020 is presented as a direct "step in this direction," clearly linking its origin to the strategic vision document for payment systems.

May/June 2010

57. "Following ceilings apply to payments by the regulated entity to the complainant: (i) Actual amount involved in the dispute - without any ceiling, (ii) Compensation for consequential loss (directly out of the act or omission of the bank) - to the extent of actual loss, with ceiling of ₹20 lakh, and (iii) Compensation for loss of time, expenses incurred, harassment and mental anguish suffered - up to the ceiling of ₹1 lakh."
Based on the source, if a customer proves a direct consequential loss of ₹25 lakh due to a bank's

Ans :

(B) At all branches of the bank.
To ensure transparency and easy access for all customers, the Grievance Redressal Policy document must be made available at all branches of the bank. While it may also be on the website or in welcome kits, availability at every branch is a key requirement to ensure that customers at any location can understand the process.

Oct/Nov 2018

50. What is the primary purpose of the analysis of complaints that banks are required to place before their Boards/Customer Service Committees?
(A) To identify systemic deficiencies and frequent sources of complaints for corrective action.
(B) To identify specific employees responsible for complaints in order to take punitive action.
(C) To accurately calculate the total financial loss incurred by the bank due to customer complaints.
(D) To gather specific customer feedback for the purpose of preparing a new marketing campaign.

Ans :

(A) To identify systemic deficiencies and frequent sources of complaints for corrective action.
The analysis of complaints serves a strategic purpose beyond individual redressal. Its objectives are to identify recurring problem areas, common sources of complaints, and underlying systemic deficiencies in processes or products. This enables the bank's management to initiate appropriate corrective actions to make the overall grievance redressal mechanism more effective and prevent future complaints.

May/June 2007

51. Which of the following actions can the Appellate Authority (AA) take after reviewing an appeal?
I. Dismiss the appeal.
II. Remand the matter back to the Ombudsman for fresh disposal.
III. Modify the Award passed by the Ombudsman.
IV. Increase the compensation beyond the limits specified in the scheme.
(A) I and II only
(B) II, III and IV only
(C) I, II and III only
(D) I, II, III and IV

Ans :

(C) I, II and III only
The Appellate Authority has wide-ranging powers to handle an appeal. It can dismiss the appeal, allow it and set aside the Ombudsman's order, remand the matter for fresh disposal with specific directions, or modify the order or Award. However, the AA's powers are still bound by the scheme, and it cannot grant compensation exceeding the ceilings prescribed.

Oct/Nov 2025

52. The Ombudsman is required to pass a reasoned Award based on certain criteria. Which of the following is NOT a specified criterion for the ruling?
(A) The principles of banking law and practice.
(B) Directions, instructions and guidelines issued by the RBI.
(C) Such other factors as may be relevant.
(D) The complainant's financial status.

Ans :

(D) The complainant's financial status.
The Ombudsman's decision must be based on objective and legal criteria. These include established principles of banking law and practice, regulatory guidelines from the RBI, and any other relevant factors pertinent to the case. The financial status of the complainant is not a specified criterion, as the decision must be based on the merits of the case itself.

May/June 2014

53. Assertion (A): A regulated entity that fails to provide information to the Ombudsman without sufficient cause loses its right to appeal an ex-parte award.
Reason (R): An appeal by a regulated entity requires prior sanction from its top management, such as the Chairman or CEO.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

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Ans :

(B) Issue a certificate, publish a newspaper ad, and pay ₹25,000 compensation.
The source details multiple actions the bank was directed to take. It was not just a single action. The bank had to provide a certificate confirming the loss, place an advertisement in a local newspaper at its own cost to inform the public, and also pay a monetary compensation of ₹25,000 for the deficiency in service.

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May/June 2005

16. The definition of 'Service' under the CPA 2019 is very broad, but it explicitly excludes which of the following?

(A) Facilities in connection with banking, financing, and insurance policies

(B) The rendering of any service free of charge or under a contract of personal service

(C) Provision of facilities in connection with housing construction, entertainment, and amusement parks

(D) Supply of electrical energy, telecom services, and internet connectivity

Ans :

(B) The rendering of any service free of charge or under a contract of personal service

While 'Service' covers a wide array of sectors like banking, insurance, transport, and housing, the Act makes two specific exclusions. It does not apply to services rendered completely free of charge, as there is no consideration. It also excludes services provided under a 'contract of personal service', which implies a master-servant relationship, distinct from a 'contract for service'.

Oct/Nov 2007

17. According to the CPA 2019, the definition of a 'Product' does NOT include which of the following?

(A) Any article or goods in a gaseous, liquid, or solid state

(B) Human tissues, blood, blood products, and organs

(C) A substance or raw material with intrinsic value

(D) A component part that is delivered for assembly

Ans :

(B) Human tissues, blood, blood products, and organs

The definition of 'Product' is extensive, covering articles, goods, substances, and raw materials in various states, whether assembled or as components. However, the Act carves out a specific and important exception for human tissues, blood, blood products, and organs, which are not treated as 'products' for the purposes of product liability claims under this legislation.

May/June 2025

18. Who is defined as a 'Manufacturer' under the Consumer Protection Act, 2019?

(A) A person who makes any goods or parts, assembles parts made by others, or puts their own mark on goods made by others

(B) A person who only sells goods made by others

(C) A person who only transports goods from one place to another

(D) A person who provides financing for the purchase of goods

Ans :

(A) A person who makes any goods or parts, assembles parts made by others, or puts their own mark on goods made by others

The definition of 'Manufacturer' is multifaceted. It includes not only the entity that physically creates the goods or its parts but also one that assembles parts made by others. Crucially, it also covers a person who puts or causes to be put their own brand or mark on goods that were actually manufactured by another entity.

Oct/Nov 2019

19. Which of the following statements about a 'Product Seller' under the CPA 2019 is incorrect?

(A) A manufacturer who also sells the product is considered a product seller.

(B) A person who imports, distributes, or leases a product in the course of business is a product seller.

(C) A provider of professional services where the sale of a product is only incidental is always considered a product seller.

(D) A person who markets or packages a product is considered a product seller.

Ans :

(C) A provider of professional services where the sale of a product is only incidental is always considered a product seller.

The Act specifically excludes certain entities from the definition of a 'Product Seller'. This includes a provider of professional services (like a doctor or architect) in a transaction where the sale or use of a product is merely incidental to the primary service of furnishing an opinion, skill, or expertise. The essence of the transaction is service, not product sale.

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(B) Services availed under a system of deferred payment
(C) Services availed by a beneficiary with the approval of the primary hirer
(D) Goods purchased for resale or for a commercial purpose

Ans :

(D) Goods purchased for resale or for a commercial purpose
The Act's scope, while broad, has specific exclusions. It does not apply to goods bought for the purpose of resale or for any commercial purpose. Similarly, services rendered free of charge or under a contract for personal service are also excluded from its purview, focusing its protection on end-consumers in non-commercial transactions.

Oct/Nov 2025

5. How do the provisions of the Consumer Protection Act, 2019 relate to other existing laws in India?
(A) They override and supersede all other laws concerning consumer matters
(B) They are subordinate to and can be barred by other specific Acts
(C) They are in addition to and not in derogation of the provisions of any other law
(D) They exclusively replace the jurisdiction of civil courts for all consumer disputes

Ans :

(C) They are in addition to and not in derogation of the provisions of any other law
The CPA, 2019 does not override other applicable laws. Its provisions are designed to provide an additional remedy to consumers. This means a consumer can seek relief under this Act, but if a remedy is specifically barred under another law, the Consumer Disputes Redressal Commissions cannot grant it. The Act supplements, rather than supplants, other legal avenues.

May/June 2017

6. Which of the following represents a salient new aspect introduced in the Consumer Protection Act, 2019, that was not explicitly defined in the previous Act?
(A) The definition of 'Consumer' and 'Service'
(B) The concept of 'Product liability action' and 'Unfair contract'
(C) The establishment of consumer forums at the district level
(D) The exclusion of goods purchased for commercial purposes

Ans :

(B) The concept of 'Product liability action' and 'Unfair contract'
The CPA 2019 significantly widened the scope of consumer protection by introducing and defining several new concepts. Among the most notable additions are 'Product liability action', which holds manufacturers and sellers accountable for defective products, and the concept of an 'Unfair contract', empowering consumers to challenge one-sided or unreasonable contractual terms, enhancing their protection.

Oct/Nov 2005

7. According to the Consumer Protection Act, 2019, the definition of a 'consumer' has been broadened to expressly include transactions made through which of the following methods?
(A) Only offline transactions in a physical market
(B) Only transactions involving barter and exchange of goods
(C) Only transactions conducted through government-approved e-commerce portals
(D) Electronic means, teleshopping, direct selling, or multi-level marketing

Ans :

(D) Electronic means, teleshopping, direct selling, or multi-level marketing
The CPA 2019 updated the definition of a consumer to reflect modern commerce. It explicitly includes individuals who engage in transactions through various non-traditional channels, such as electronic means (e-commerce), teleshopping, direct selling, and multi-level marketing. This expansion ensures that consumers in the digital marketplace receive the same level of protection as those in physical markets.

May/June 2023

Under the CPA 2019, who is considered a 'consumer' in relation to goods?
(A) A user of goods, other than the buyer, who uses them with the buyer's approval
(B) A person who obtains goods for resale in their shop
(C) A person who buys goods for a commercial purpose to expand their large business

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CHAPTER 20

The Consumer Protection Act, 2019: Preamble, Extent and Definitions

Oct/Nov 2013

1. What was the primary objective of the Consumer Protection Act, 1986?

(A) To promote the financial performance of commercial enterprises

(B) For better protection of the interests of consumers through a self-contained quasi-judicial machinery

(C) To provide a complex and detailed judicial procedure for consumer disputes

(D) To replace all existing civil court remedies for consumers

Ans :

(B) For better protection of the interests of consumers through a self-contained quasi-judicial machinery

The Consumer Protection Act, 1986 was enacted as a social welfare benefit oriented legislation. Its main purpose was to safeguard consumer interests by establishing a self-contained quasi-judicial framework designed to offer speedy and simple redressal for consumer disputes, which was an improvement over the complex and time-consuming processes of traditional civil courts.

May/June 2008

2. The Consumer Protection Act, 2019 was enacted to replace the 1986 Act primarily because the earlier Act was found inadequate to address issues arising from what major economic and technological changes?

(A) Liberalisation, globalization of the economy, and digitalization of commerce

(B) Nationalization of banks and industrial licensing policies

(C) Pre-globalization era trade restrictions and controlled markets

(D) The decline of physical marketplaces and traditional trade practices

Ans :

(A) Liberalisation, globalization of the economy, and digitalization of commerce

The CPA 1986 was a product of the pre-globalization era. Post-liberalization, the Indian market witnessed unprecedented growth, emergence of global supply chains, international trade, and rapid development of e-commerce. The 1986 Act was inadequate to address the new forms of unfair trade and unethical business practices arising from this changed ecosystem, necessitating a revised law.

Oct/Nov 2011

3. What is the territorial extent of the Consumer Protection Act, 2019?

(A) The whole of India, excluding the Union Territory of Jammu & Kashmir

(B) Only the metropolitan cities of India where e-commerce is prevalent

(C) The whole of India, including the Union Territory of Jammu & Kashmir

(D) All states of India, but excluding all Union Territories

Ans :

(C) The whole of India, including the Union Territory of Jammu & Kashmir

The Consumer Protection Act, 2019 has a pan-India jurisdiction. The Act explicitly states that its provisions extend to the whole of India, which now includes the Union Territory of Jammu & Kashmir. This ensures uniform application of consumer protection laws across the entire country, providing a consistent framework for redressal for all Indian consumers.

May/June 2014

4. The Consumer Protection Act, 2019 applies to all goods and services except for which of the following?

(A) Goods purchased for earning livelihood through self-employment

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by aiming to ensure a competitive marketplace where they have choices and are not subjected to monopolistic control, which could otherwise lead to inflated prices or limited options.

May/June 2021

12. Which of the six consumer rights under the CPA 2019 specifically deals with the consumer's ability to voice grievances and be given fair consideration in relevant forums?
(A) The right to consumer awareness
(B) The right to be heard
(C) The right to be protected
(D) The right to be informed

Ans :

(B) The right to be heard
The 'right to be heard and to be assured that consumer's interests will receive due consideration at appropriate fora' is a fundamental procedural right. It ensures that consumers are not just passive recipients but have an active voice. This right guarantees that their complaints and interests will be listened to and considered fairly by consumer councils and redressal commissions.

Oct/Nov 2009

13. Which of the following entities is NOT included in the definition of a 'Person' under the Consumer Protection Act, 2019?
(A) A Hindu undivided family
(B) A firm, whether registered or not
(C) A minor acting without a legal guardian
(D) Any artificial juridical person

Ans :

(C) A minor acting without a legal guardian
The definition of 'Person' under the Act is very broad, including individuals, firms, HUFs, co-operative societies, associations of persons, corporations, and artificial juridical persons. While a minor can be a consumer, a complaint on their behalf must be filed by their parent or legal guardian; the minor themselves is not independently recognized as a 'person' for initiating legal proceedings.

May/June 2012

14. What does the term 'Advertisement' mean according to the CPA 2019?
(A) Only printed material in newspapers, magazines, and pamphlets
(B) Only audio or visual publicity made by means of electronic media, such as television and radio
(C) Only endorsements made by celebrities on television or social media platforms
(D) Any audio or visual publicity, representation, or endorsement made through various media including light, sound, print, and internet

Ans :

(D) Any audio or visual publicity, representation, or endorsement made through various media including light, sound, print, and internet
The CPA 2019 defines 'Advertisement' very broadly to cover all modern forms of promotion. It includes any audio or visual publicity, representation, endorsement, or pronouncement made through any medium like light, sound, smoke, gas, print, electronic media, internet, or website. This comprehensive definition also includes documents like notices, circulars, labels, and wrappers.

Oct/Nov 2022

15. In the context of an advertisement, which of the following falls under the definition of 'Endorsement' as per the CPA 2019?
(A) A depiction of the name or seal of an institution that makes a consumer believe it reflects the institution's opinion
(B) The technical specification sheet of a product, provided by the engineering team
(C) The price tag attached to an item in a store, including applicable taxes
(D) An internal quality control report of the manufacturer, not intended for public viewing

Ans :

(A) A depiction of the name or seal of an institution that makes a consumer believe it reflects the institution's opinion
'Endorsement' under the Act refers to any message, statement, or depiction that lends credibility to a product or service in an advertisement. This includes not just verbal statements or celebrity likenesses, but also the use of an institution's name or seal if it leads the consumer to believe that the institution vouches for the product's quality or performance.

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(D) A person who obtains goods without any consideration paid or promised

Ans :

(A) A user of goods, other than the buyer, who uses them with the buyer's approval
The definition of a consumer of goods includes not only the person who buys them for a consideration but also any other person who uses such goods with the approval of the buyer. However, it explicitly excludes anyone who obtains goods for resale or for any commercial purpose, thereby focusing protection on the final user in a non-commercial context.

Oct/Nov 2016

9. As per the explanation in the CPA 2019, when is the use of goods bought for a 'commercial purpose' NOT excluded from the definition of a consumer?
(A) When the goods are used by a large corporation for its business operations
(B) When the goods are bought in bulk for generating profits through a registered partnership firm
(C) When the goods are used by a person exclusively for the purpose of earning a livelihood by means of self-employment
(D) When the goods are used to provide services to other businesses on a large scale

Ans :

(C) When the goods are used by a person exclusively for the purpose of earning a livelihood by means of self-employment
The Act provides a crucial exception to the "commercial purpose" exclusion. If a person buys and uses goods exclusively for the purpose of earning their livelihood through self-employment, they are still considered a 'consumer'. This protects small-scale entrepreneurs and self-employed individuals who might otherwise be left without recourse under the Act for defective goods.

May/June 2010

10. Consider the following statements regarding who is a 'consumer' under the CPA 2019:
Statement I: A person who hires a service for a commercial purpose is not a consumer.
Statement II: A beneficiary of a service, who did not hire it but uses it with the approval of the hirer, is considered a consumer.
(A) Both Statement I and Statement II are correct
(B) Both Statement I and Statement II are incorrect
(C) Statement I is correct, but Statement II is incorrect
(D) Statement I is incorrect, but Statement II is correct

Ans :

(A) Both Statement I and Statement II are correct
Both statements accurately reflect the definition of a consumer of services under the CPA 2019. The Act excludes persons who avail services for any commercial purpose. At the same time, it includes not just the person who hires the service for consideration but also any beneficiary who avails the service with the approval of the hirer.

Oct/Nov 2020

11. Read the following extract defining 'consumer rights' from the chapter:
"Consumer rights: includes:
i. the right to be protected against the marketing of goods, products or services which are hazardous to life and property;
ii. the right to be informed about the quality, quantity, potency, purity, standard and price of goods, products or services...;
iii. the right to be assured, wherever possible, access to a variety of goods, products or services at competitive prices;
iv. the right to be heard and to be assured that consumer's interests will receive due consideration at appropriate fora;
v. the right to seek redressal...; and
vi. the right to consumer awareness."
Which right specifically aims to prevent monopolistic practices and ensure market competition benefits the consumer?
(A) The right to be protected
(B) The right to be informed
(C) The right to seek redressal
(D) The right to be assured access to variety at competitive prices

Ans :

(D) The right to be assured access to variety at competitive prices
The 'right to be assured, wherever possible, access to a variety of goods, products or services at competitive prices' directly addresses market conditions. This right empowers consumers

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May/June 2009

20. What is meant by 'Direct Selling' according to the CPA 2019?

(A) Selling goods exclusively through a permanent retail location like a department store

(B) The act of a manufacturer selling goods in bulk directly to a wholesaler or distributor

(C) Buying and selling of goods over a digital or electronic network, such as an e-commerce website

(D) Marketing, distribution, and sale of goods or services through a network of sellers, other than through a permanent retail location

Ans :

(D) Marketing, distribution, and sale of goods or services through a network of sellers, other than through a permanent retail location

'Direct Selling' is defined as a specific business model for marketing and sales. It involves a network of sellers who sell goods or provide services directly to consumers, operating outside of a traditional, permanent retail establishment. This definition helps bring activities like multi-level marketing squarely within the purview of the Consumer Protection Act.

Oct/Nov 2024

21. Under the CPA 2019, an 'Electronic Service Provider' is a person who:

(A) Manufactures electronic goods like phones and laptops.

(B) Sells their own branded products on an online marketplace.

(C) Provides technologies or processes to enable a product seller to advertise or sell goods to a consumer.

(D) Delivers goods purchased online to the consumer's address.

Ans :

(C) Provides technologies or processes to enable a product seller to advertise or sell goods to a consumer.

An 'Electronic Service Provider' is the facilitator of e-commerce transactions, not necessarily the seller themselves. This definition includes entities that create and manage the underlying technology, such as online marketplaces or auction sites, which enable product sellers to connect with and sell to consumers over a digital network, making them accountable under the Act.

May/June 2020

22. A 'Complaint' under the CPA 2019 can be made for which of the following reasons?

I. The goods bought suffer from one or more defects.

II. A trader has charged a price in excess of the price agreed between the parties.

III. A claim for product liability action lies against the product manufacturer.

(A) Only I

(B) I, II, and III

(C) Only I and II

(D) Only II and III

Ans :

(B) I, II, and III

The definition of 'Complaint' is extensive and covers a wide range of consumer grievances. This includes allegations about defective goods, deficient services, overcharging by a trader or service provider beyond the legally fixed or displayed or agreed price, and claims arising from product liability. All three scenarios listed are valid grounds for filing a complaint.

Oct/Nov 2015

23. The chapter defines 'Deficiency' as: "any fault, imperfection, shortcoming or inadequacy in the quality, nature and manner of performance which is required to be maintained by or under any law... or has been undertaken to be performed by a person in pursuance of a contract... and includes—

(i) any act of negligence or omission or commission... which causes loss or injury to the consumer; and

(ii) deliberate withholding of relevant information..."

A bank promises to process a loan application within 7 days but takes 30 days without any valid reason, causing the applicant to miss a property deal. This would be considered a deficiency based on what aspect of the definition?

(A) An act of commission or omission which directly causes financial injury to the consumer

(B) Deliberate withholding of relevant information regarding the loan processing status

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(C) A fault in performance required to be maintained by a specific banking regulation law
(D) Inadequacy in the quality, nature and manner of performance undertaken to be performed

Ans :

(D) Inadequacy in the quality, nature and manner of performance undertaken to be performed
The bank's failure to meet the promised timeline represents a shortcoming or inadequacy in the manner of performance that it had undertaken to provide. This delay, which resulted in a loss for the consumer, directly fits the primary definition of 'deficiency' as a failure to perform a service as promised in a contract or agreement.

May/June 2013

24. In the context of product liability under the CPA 2019, what does the term 'Harm' include?
(A) Personal injury, illness, death, or damage to any property other than the product itself
(B) Only damage to the defective product itself, such as a cracked screen on a phone
(C) Only commercial or economic loss resulting from a breach of warranty terms
(D) Only mental agony or emotional distress unrelated to any physical injury or property damage

Ans :

(A) Personal injury, illness, death, or damage to any property other than the product itself
The definition of 'Harm' for product liability is specific. It encompasses physical harm to a person (injury, illness, death) and damage to any property, but explicitly excludes damage to the defective product itself. It also includes mental agony or emotional distress that is attendant to such personal injury or property damage, creating a broad scope for compensation.

Oct/Nov 2021

25. Which of the following is explicitly excluded from the scope of 'harm' for which a product liability claim can be made?
(A) Personal injury or illness
(B) Mental agony attendant to personal injury
(C) Any harm caused to the product itself or commercial loss due to breach of warranty
(D) Damage to any property other than the product itself

Ans :

(C) Any harm caused to the product itself or commercial loss due to breach of warranty
The definition of 'harm' under product liability specifically carves out certain exclusions. It does not cover damage sustained by the defective product itself. Furthermore, any commercial or economic loss, including direct, incidental, or consequential losses arising from a breach of warranty conditions, are not included within this definition of 'harm' for product liability actions.

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May/June 2024

26. What is the definition of a 'Product Liability Action' under the CPA 2019?
(A) A complaint filed by a person before a Redressal Commission for claiming compensation for harm caused to him
(B) A criminal proceeding initiated by the state against a manufacturer for producing unsafe goods
(C) An internal audit conducted by a company's quality control department to check for defective products
(D) A public interest litigation filed in the High Court for the benefit of all affected consumers

Ans :

(A) A complaint filed by a person before a Redressal Commission for claiming compensation for harm caused to him
A 'Product Liability Action' is the formal legal recourse available to a consumer under the Act. It is defined as a complaint filed by a person before a District, State, or National Commission, as appropriate, specifically to claim compensation for the harm that was caused to them by a defective product or deficient service related thereto.

Oct/Nov 2008

27. Delaying the supply of goods beyond the agreed-upon period, which is likely to cause a price rise, is an example of what kind of practice under the CPA 2019?
(A) Unfair Contract
(B) Misleading Advertisement
(C) Unfair Trade Practice
(D) Restrictive Trade Practice

Ans :

(D) Restrictive Trade Practice

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A 'Restrictive Trade Practice' is defined as a practice that tends to manipulate prices or conditions of delivery, or affect the flow of supplies, thereby imposing unjustified costs or restrictions on consumers. Delaying supply beyond the agreed period, which could lead to a price increase, is explicitly included as a type of restrictive trade practice.

May/June 2006

28. Match the term related to an 'Unfair Contract' (List-I) with its correct description (List-II).

	List-I		List-II
P.	Excessive Security Deposit	1.	Entitling one party to terminate the contract unilaterally without reasonable cause
Q.	Disproportionate Penalty	2.	Imposing a penalty on the consumer for a breach that is not proportional to the actual loss.
R.	Unilateral Termination	3.	Requiring a consumer to give a manifestly excessive deposit for contract performance
S.	Unilateral Assignment	4.	Permitting one party to assign the contract to the detriment of the consumer without consent

(A) P-3, Q-2, R-1, S-4
(B) P-1, Q-4, R-2, S-3
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-3, R-1, S-4

Ans :

(A) P-3, Q-2, R-1, S-4
The CPA 2019 defines several terms that render a contract 'unfair'. These include: requiring manifestly excessive security deposits (P-3), imposing a penalty for breach that is wholly disproportionate to the loss (Q-2), entitling a party to terminate unilaterally without cause (R-1), and permitting unilateral assignment to the consumer's detriment without consent (S-4).

Oct/Nov 2017

29. Consider the following statements regarding Unfair Trade Practices under CPA 2019.
Assertion (A): A seller giving a warranty on the life of a product that is not based on an adequate test is an unfair trade practice.
Reason (R): When a defence is raised that the warranty was based on a proper test, the burden of proof lies on the consumer who filed the complaint.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
Assertion (A) is true, as giving a public warranty or guarantee of performance or life of a product without an adequate or proper test is an unfair trade practice. However, Reason (R) is false. The proviso clearly states that if a defence is raised claiming the test was adequate, the burden of proof lies on the person raising such defence, not the consumer.

May/June 2007

30. Which of the following is an example of an unfair trade practice related to false representation of services?
(A) Offering services at a discounted price for a limited promotional period
(B) Clearly stating all the terms and conditions of service delivery in the contract
(C) Providing a detailed, itemized invoice for all services rendered to the customer
(D) Falsely representing that the services are of a particular standard, quality, or grade

Ans :

(D) Falsely representing that the services are of a particular standard, quality, or grade
An unfair trade practice includes making false or misleading statements. Falsely representing that services meet a particular standard, quality, or grade when they do not, is a specific example of such a practice. This is intended to protect consumers from being deceived about the quality of services they are paying for, ensuring transparency and honesty from service providers.

Oct/Nov 2018

31. In the context of an advertisement for sale at a 'bargain price', what does the term 'bargain price' mean?
(A) A price stated to be a bargain by reference to an ordinary price, or a price a consumer

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(C) Where the value of goods or services paid as consideration does not exceed ₹5 crore
(D) Where the value of goods or services paid as consideration exceeds ₹10 crore

Ans :

(B) Where the value of goods or services paid as consideration does not exceed ₹10 crore
For the specific issue of unfair contracts, the State Commission has an enhanced pecuniary jurisdiction. It can entertain complaints against unfair contracts where the value of the goods or services paid as consideration is up to ten crore rupees. This allows a higher forum to handle these potentially complex and high-value contractual disputes from the outset.

Oct/Nov 2015

49. Which of the following entities can file a complaint with a District Commission?
(A) Only the individual consumer to whom goods were sold
(B) The Central Government, the Central Authority, or the State Government
(C) Only a recognized consumer association on behalf of a member
(D) A person who bought goods for the purpose of resale

Ans :

(B) The Central Government, the Central Authority, or the State Government
The definition of an 'eligible complainant' is broad. While individual consumers and consumer associations can file complaints, the Act also empowers government bodies to act in the interest of consumers. The Central Government, the newly created Central Authority (CCPA), or the State Government can file a complaint, particularly in cases involving larger public interest.

May/June 2017

50. Mr. Sharma bought a birthday cake from a bakery. At his birthday party, a guest, Ms. Verma, consumed a piece of the cake and found a nail in it, causing a minor injury. Under the CPA 2019, can Ms. Verma file a complaint against the bakery?
(A) Yes, because as a guest consuming the cake with the buyer's implicit permission, she is considered a 'consumer'.
(B) No, because she did not pay for the cake and is not the buyer.
(C) No, because the injury was minor and does not qualify as 'harm'.
(D) Yes, but only Mr. Sharma, the original buyer, can file the complaint on her behalf.

Ans :

(A) Yes, because as a guest consuming the cake with the buyer's implicit permission, she is considered a 'consumer'.
The CPA 2019 defines a 'consumer' of goods to include any user of such goods when the use is made with the approval of the person who bought them. In this case, Ms. Verma consumed the cake with the implicit permission of Mr. Sharma, the buyer. Therefore, she qualifies as a consumer and can file a complaint.

Oct/Nov 2024

51. A housewife purchases a sewing machine and uses it to stitch clothes for her neighbors, earning a small income to support her household expenses. The machine turns out to be defective. Can she file a complaint as a 'consumer' under the CPA 2019?
(A) No, because she is using the machine for a commercial purpose of earning income.
(B) No, because household expenses are not considered part of a livelihood.
(C) Yes, because using the machine for earning her livelihood by means of self-employment is an exception to the 'commercial purpose' exclusion.
(D) Yes, but only if her income from sewing is below a certain prescribed limit.

Ans :

(C) Yes, because using the machine for earning her livelihood by means of self-employment is an exception to the 'commercial purpose' exclusion.
The Act provides a specific explanation that the expression "commercial purpose" does not include the use of goods by a person exclusively for earning their livelihood through self-employment. Since the housewife is using the sewing machine for this very purpose, she is considered a 'consumer' and is entitled to file a complaint for the defective product.

May/June 2025

52. What is the fee for filing a complaint before a Consumer Disputes Redressal Commission if the

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Ans :

(C) To render advice on the promotion and protection of consumer rights
The Consumer Protection Councils are advisory bodies, not judicial ones. Their main function is to promote and protect the six consumer rights defined in the Act. They do not handle consumer complaints directly but play a crucial role in policy-making, spreading awareness, and advising the government on matters concerning consumer interests and protection.

May/June 2018

36. What is the maximum number of members that the Central Consumer Protection Council (CPC) can have?
(A) 10
(B) 25
(C) 50
(D) 36

Ans :

(D) 36
The composition of the Central Consumer Protection Council is specified to ensure broad representation. The Act mandates that the CPC can have a maximum of 36 members. This includes the Minister in-charge of Consumer Affairs as Chairperson, along with ministers from states, MPs, regulators, and secretaries from various government departments to provide diverse perspectives.

Oct/Nov 2014

37. How often is the State Consumer Protection Council (SPC) required to meet?
(A) At least once every year
(B) At least three times every year
(C) At least two times every year
(D) At least four times every year

Ans :

(C) At least two times every year
To ensure that the State Consumer Protection Council effectively discharges its advisory role, the Act prescribes a minimum meeting frequency. The SPC is required to meet as and when necessary, but it must conduct at least two meetings in every calendar year to discuss and advise on consumer protection issues within the state.

May/June 2015

38. Who chairs the District Consumer Protection Council (DPC) established by the State Government in every district?
(A) The President of the District Commission
(B) The District Collector
(C) The Minister-in-charge of Consumer Affairs of the State
(D) A retired High Court Judge

Ans :

(B) The District Collector
The Consumer Protection Act, 2019 mandates the establishment of a District Consumer Protection Council (DPC) in each district. The administrative head of the district, the District Collector, is designated as the chairperson of this council. The DPC comprises official and non-official members representing various interests to advise on local consumer issues.

Oct/Nov 2012

39. The chapter describes the Central Consumer Protection Authority (CCPA) and its functions. One of its main functions is "To protect, promote and enforce the rights of consumers as a class". Another is to "prevent unfair trade practices".
Based on these functions, what is the primary nature of the CCPA's role?
(A) Purely advisory and recommendatory, similar to the Consumer Councils
(B) Purely judicial, focused on adjudicating individual consumer complaints
(C) Exclusively focused on international trade agreements and consumer rights abroad
(D) Regulatory and enforcement-oriented, acting on behalf of consumers collectively

Ans :

(D) Regulatory and enforcement-oriented, acting on behalf of consumers collectively
The stated functions indicate that the CCPA is not merely an advisory body. Its mandate to "enforce" rights, "prevent" unfair practices, and act for consumers "as a class" establishes it as a proactive regulatory authority. This role is distinct from the redressal commissions that handle individual complaints and the councils that provide advice.

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May/June 2011

40. Which of the following is NOT listed as an ancillary function of the Central Consumer Protection Authority (CCPA)?

(A) Appointing the President and members of the State Commissions

(B) Intervening in proceedings before a District, State, or National Commission

(C) Recommending the adoption of international covenants and best practices

(D) Issuing notices to alert consumers against hazardous goods or services

Ans :

(A) Appointing the President and members of the State Commissions

The CCPA has wide-ranging ancillary functions, including inquiry, research, promoting awareness, and intervening in commission proceedings. However, the appointment of the President and members of the State/District Commissions is a separate process handled by the State Government based on the recommendation of a specific Selection Committee, not by the CCPA.

Oct/Nov 2023

41. What power does the CCPA have if it finds an advertisement to be false or misleading?

(A) It can only issue a recommendation that the advertiser voluntarily withdraw the advertisement

(B) It can only file a criminal case against the advertiser in a regular court of law

(C) It can order the discontinuation or modification of the advertisement and impose a penalty

(D) It can only issue a public notice in newspapers warning consumers about the ad

Ans :

(C) It can order the discontinuation or modification of the advertisement and impose a penalty

The CCPA is vested with significant powers to combat false advertising. It can issue a direct order for the advertisement to be discontinued or modified. In addition to this, it has the authority to impose a penalty on the manufacturer, service provider, or endorser who is found to be a party to such a misleading advertisement.

May/June 2022

42. What is the penalty for a person who fails to comply with a direction issued by the Central Consumer Protection Authority (CCPA)?

(A) Imprisonment for a term which may extend to six months or with a fine which may extend to ₹20 lakh, or with both

(B) Imprisonment up to one month or a fine up to ₹1 lakh, or both

(C) A fine which may extend to ₹10 lakh only

(D) A compulsory order to issue a corrective advertisement

Ans :

(A) Imprisonment for a term which may extend to six months or with a fine which may extend to ₹20 lakh, or with both

To ensure its directions are followed, the Act prescribes a stringent penalty for non-compliance with an order of the Central Authority. A person who fails to comply can face imprisonment for up to six months, or a fine that can go up to twenty lakh rupees, or both, making the CCPA's orders legally enforceable and binding.

Oct/Nov 2020

43. For a subsequent offence of causing a false or misleading advertisement to be made, what is the maximum punishment a manufacturer or service provider can face?

(A) Imprisonment up to one year and a fine up to ₹20 lakh

(B) Imprisonment up to two years and a fine up to ₹10 lakh

(C) Imprisonment up to three years and a fine up to ₹25 lakh

(D) Imprisonment up to five years and a fine up to ₹50 lakh

Ans :

(D) Imprisonment up to five years and a fine up to ₹50 lakh

The Act provides for enhanced penalties for repeat offenders. While the first offence of making a false advertisement attracts imprisonment up to two years and a fine up to ₹10 lakh, any subsequent offence is treated more severely, with punishment extending up to five years of imprisonment and a fine of up to ₹50 lakh.

May/June 2022

44. What is the specified composition of a District Consumer Disputes Redressal Commission?

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(A) A President and not less than one member
(B) A President and not less than two and not more than a prescribed number of members
(C) A President and not less than three members
(D) A President and not less than four and not more than a prescribed number of members

Ans :

(B) A President and not less than two and not more than a prescribed number of members
The structure of the District Commission is clearly defined in the Act. It must consist of a President and a minimum of two members. The maximum number of members is not fixed in the Act itself but is left to be prescribed by the government, ensuring flexibility while maintaining a standard minimum bench strength for adjudicating disputes.

Oct/Nov 2023

45. What is the term of office for the President and members of a State or District Commission?
(A) A term of five years or up to the age of 65 years, whichever is earlier
(B) A term of five years or up to the age of 70 years, whichever is earlier
(C) A term of four years or up to the age of 65 years, whichever is earlier
(D) A term of four years or up to the age of 60 years, whichever is earlier

Ans :

(C) A term of four years or up to the age of 65 years, whichever is earlier
The tenure for the President and members of both the State and District Commissions is standardized. They hold office for a term of four years or until they attain the age of sixty-five years, whichever occurs first. They are also eligible for reappointment for one additional four-year term, subject to the same age limit.

May/June 2024

46. What is the pecuniary jurisdiction of a District Consumer Disputes Redressal Commission?
(A) To entertain complaints where the value of goods or services paid as consideration does not exceed ₹20 lakh.
(B) To entertain complaints where the value of goods or services paid as consideration does not exceed ₹1 crore.
(C) To entertain complaints where the value of goods or services paid as consideration does not exceed ₹2 crore.
(D) To entertain complaints where the value of goods or services paid as consideration does not exceed ₹50 lakh.

Ans :

(D) To entertain complaints where the value of goods or services paid as consideration does not exceed ₹50 lakh.
The CPA 2019 defines the financial limits for filing complaints at different tiers. The District Commission is the first level of the hierarchy and has the jurisdiction to entertain complaints where the value of the goods or services paid as consideration by the consumer does not exceed a sum of fifty lakh rupees.

Oct/Nov 2013

47. A consumer can file a complaint in a District Commission within the local limits of whose jurisdiction which of the following applies?
I. The opposite party ordinarily resides or carries on business.
II. The cause of action, wholly or in part, arises.
III. The complainant resides or personally works for gain.
IV. Any of the opposite parties actually resides, with the permission of the District Commission.
(A) I, II, III, and IV
(B) Only I and II
(C) Only I, II, and III
(D) Only III and IV

Ans :

(A) I, II, III, and IV
The CPA 2019 provides consumers with multiple options for territorial jurisdiction, making it more convenient to file a complaint. A complaint can be instituted where the opposite party resides or works, where any of the opposite parties reside (with permission), where the cause of action arose, or, significantly, where the complainant themselves reside or work for gain.

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May/June 2011

48. What is the pecuniary jurisdiction of a State Commission for entertaining complaints against unfair contracts?
(A) Where the value of goods or services paid as consideration does not exceed ₹2 crore
(B) Where the value of goods or services paid as consideration does not exceed ₹10 crore

Oct/Nov 2022

57. What is the general limitation period for filing a complaint before a Consumer Commission?
(A) 1 year from the date on which the cause of action has arisen
(B) 3 years from the date on which the cause of action has arisen
(C) 2 years from the date on which the cause of action has arisen
(D) There is no specified limitation period

Ans :

(C) 2 years from the date on which the cause of action has arisen
To ensure that disputes are brought forward in a timely manner, the Act specifies a limitation period. A District, State, or National Commission shall not admit a complaint unless it is filed within two years from the date on which the cause of action arose. A delay can be condoned only if the complainant shows sufficient cause.

May/June 2005

58. For failure to comply with an order made by a District, State, or National Commission under Section 72, what is the minimum fine prescribed?
(A) ₹25,000
(B) ₹10,000
(C) ₹50,000
(D) ₹1,00,000

Ans :

(A) ₹25,000
To ensure the enforceability of their orders, the commissions are empowered to penalize non-compliance. Section 72 prescribes punishment which includes imprisonment and a fine. The monetary penalty has a specified floor; the fine shall not be less than twenty-five thousand rupees, but it can extend up to one lakh rupees, ensuring a significant deterrent.

Oct/Nov 2009

59. The chapter lists eligibility criteria for empanelment as a Mediator. These include *"(i) retired Judges of Supreme Court...; (vi) an advocate with a minimum experience of ten years at Bar; ... (ix) experts or other professionals with at least fifteen years' experience or retired senior bureaucrats or retired executives."*
Based on this, what is the minimum years of experience required for an advocate to be eligible, and for an expert/professional to be eligible, respectively?
(A) 5 years for an advocate, 10 years for a professional
(B) 10 years for an advocate, 10 years for a professional
(C) 15 years for an advocate, 10 years for a professional
(D) 10 years for an advocate, 15 years for a professional

Ans :

(D) 10 years for an advocate, 15 years for a professional
The eligibility criteria for mediators are specific regarding professional experience to ensure competence. An advocate must have a minimum of ten years of experience at the Bar. In contrast, for other experts or professionals, a higher threshold of at least fifteen years of experience is required, reflecting the different nature of their expertise and qualifications.

May/June 2016

60. A bank changed the reference rate for a home loan from 'Home Loan Regular Rate' to 'Mortgage Variable Reference Rate', increased the interest rate from 10.50% to 20.25%, and increased the loan tenor without providing a clear maturity date. The bank argued it had the discretion to change rates due to market conditions. The Commission held the bank guilty of deficiency in service and unfair trade practice. What was the likely reasoning of the Commission?
(A) The bank had complete discretion and the borrowers had consented to a variable rate, so the Commission's order was incorrect.
(B) The bank acted in an arbitrary and one-sided manner, and even with consent, it could not amend terms without considering banking regulations and guidelines.
(C) The borrowers' complaint was barred by the limitation period as the loan was taken many years ago.
(D) The change in reference rate was a standard industry practice and fully justified.

Ans :

(B) The bank acted in an arbitrary and one-sided manner, and even with consent, it could not amend terms without considering banking regulations and guidelines.

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value of goods and services paid as consideration is up to ₹5 lakh?
(A) ₹100
(B) ₹250
(C) ₹500
(D) No fee is prescribed

Ans :

(D) No fee is prescribed
To ensure access to justice for small claims, the CPA 2019 provides a fee exemption for lower-value disputes. For complaints where the value of the goods or services paid as consideration is up to five lakh rupees, no fee is prescribed to be paid by the complainant, making it easier for consumers to seek redressal.

Oct/Nov 2007

53. After a complaint is admitted by the District Commission, within how many days must a copy be sent to the opposite party, directing them to provide their version?
(A) 7 days
(B) 15 days
(C) 21 days
(D) 30 days

Ans :

(C) 21 days
The Act specifies clear timelines for procedural steps to ensure speedy redressal. Once a complaint is admitted, the District Commission must refer a copy of the admitted complaint to the opposite party within twenty-one days from the date of admission, directing them to submit their response within a stipulated period.

May/June 2014

54. If a complaint about a defective good requires analysis or testing by a laboratory, what is the time period within which the laboratory must report its findings?
(A) 15 days
(B) 45 days
(C) 30 days
(D) 60 days

Ans :

(B) 45 days
For cases where a defect cannot be determined without technical examination, the Act sets a specific timeline for the laboratory. The designated laboratory must conduct the analysis or test and report its findings to the District Commission within a period of forty-five days from the receipt of the reference, or any extended period granted.

Oct/Nov 2016

55. The chapter lists several orders a District Commission can issue if a complaint is proven. These include
"(i) To remove the defect...; (ii) To replace the goods...; (iii) To return...the price...; ... (xii) To issue corrective advertisement to neutralise the effect of misleading advertisement at the cost of the opposite party..."
If a mobile phone company is found guilty of a misleading advertisement about its battery life, which order would be most appropriate to counteract the public deception?
(A) Order (i)
(B) Order (ii)
(C) Order (iii)
(D) Order (xii)

Ans :

(D) Order (xii)
When the core issue is a misleading advertisement that has deceived the public, simply compensating the individual complainant is not enough. The power to order the issuance of a corrective advertisement at the opposite party's expense is a crucial tool to neutralize the effect of the original false claim and inform the wider public, directly addressing the root cause.

May/June 2018

56. What is the time limit for filing an appeal to the State Commission against an order of the District Commission?
(A) 45 days from the date of the order
(B) 30 days from the date of the order
(C) 60 days from the date of the order
(D) 90 days from the date of the order

Ans :

(A) 45 days from the date of the order
The Act provides a specific window for parties to appeal an adverse order. A person aggrieved by an order of the District Commission can file an appeal before the State Commission. This appeal must be filed within a period of forty-five days from the date of the order, though the commission may permit a delay if sufficient cause is shown.

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would reasonably understand to be a bargain
(B) Any price that is demonstrably lower than the product's manufacturing cost
(C) The final price of a product after adding all applicable taxes and shipping duties
(D) The absolute lowest price at which the product has ever been sold in any market

Ans :

(A) A price stated to be a bargain by reference to an ordinary price, or a price a consumer would reasonably understand to be a bargain
The explanation for 'bargain price' within unfair trade practices clarifies its meaning. It refers to a price presented as a bargain in an advertisement, either by comparing it to an 'ordinary' price or in a way that a reasonable person would perceive it as a special, reduced price compared to the usual market rates for that product.

May/June 2019

32. Which of the following actions by a seller, after selling goods, would constitute an unfair trade practice under the CPA 2019?
(A) Offering an optional extended warranty for the product for an additional fee
(B) Refusing to take back defective goods and refund the consideration within thirty days, in the absence of a stipulated period
(C) Providing prompt and efficient after-sales service as per the terms of the contract
(D) Contacting the customer after the sale to request feedback on the product experience

Ans :

(B) Refusing to take back defective goods and refund the consideration within thirty days, in the absence of a stipulated period
The CPA 2019 lists specific post-sale obligations. Refusing to take back or withdraw defective goods and failing to refund the paid consideration constitutes an unfair trade practice. If no period is mentioned in the bill, the Act specifies a default period of thirty days within which this must be done, protecting consumer rights after purchase.

Oct/Nov 2006

33. Disclosing a consumer's personal information given in confidence to another person is considered an unfair trade practice, unless what condition is met?
(A) The consumer has given informal oral consent over the phone
(B) The disclosure is made in accordance with the provisions of any law for the time being in force
(C) The disclosure is made to an affiliated company for its marketing purposes
(D) The personal information provided by the consumer is more than one year old

Ans :

(B) The disclosure is made in accordance with the provisions of any law for the time being in force
The Act protects consumer data privacy by classifying the disclosure of personal information given in confidence as an unfair trade practice. However, it provides a critical exception: such disclosure is permissible if it is made in accordance with the provisions of any other existing law that mandates or allows for such sharing of information.

May/June 2016

34. Identify the correct pair of a redressal forum and its establishing authority as per the CPA 2019.
(A) State Commission - State Government
(B) District Commission - Central Government
(C) National Commission - Supreme Court of India
(D) Central Council - President of India

Ans :

(A) State Commission - State Government
The Consumer Protection Act, 2019 specifies the authorities responsible for establishing the various redressal commissions. State Governments are empowered to establish a State Consumer Disputes Redressal Commission (State Commission) in their respective states. District Commissions are also established by the State Government, while the National Commission is established by the Central Government.

Oct/Nov 2010

35. What is the primary role of the Consumer Protection Councils established at the Central, State, and District levels?
(A) To adjudicate consumer complaints and pass binding orders
(B) To conduct raids and seize defective goods from traders
(C) To render advice on the promotion and protection of consumer rights
(D) To appoint members of the Consumer Disputes Redressal Commissions

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The case summary indicates that the Commission sided with the borrowers. The key observation was that the bank's actions were arbitrary and one-sided. Even if the contract allowed for changes, such discretion could not be absolute and had to be exercised reasonably, in line with banking regulations and guidelines, which the bank failed to substantiate.

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court of law.
(C) Only for policy decisions that affect the entire nation.
(D) For all internal administrative decisions, including employee transfers.

Ans :

(A) For their administrative or quasi-judicial decisions to affected persons.
To promote fairness and accountability, the Act obligates public authorities to provide reasons for their administrative or quasi-judicial decisions, specifically to those persons who are affected by such decisions. This requirement ensures that decision-making processes are not arbitrary and that individuals understand the basis on which a decision concerning them has been made.

May/June 2007

19. Identify the correct statement regarding the dissemination of materials by a public authority under the RTI Act.
(A) All materials must be provided exclusively in English or Hindi at a fixed national price set by the Central Government.
(B) Electronic information must always be provided free of cost, regardless of the significant resources used to compile or retrieve it.
(C) Materials must be disseminated considering cost effectiveness, local language, and the most effective communication method.
(D) Dissemination is legally limited to printed formats and official gazette notifications to ensure authenticity.

Ans :

(C) Materials must be disseminated considering cost effectiveness, local language, and the most effective communication method.
The Act mandates wide dissemination of information. It specifies that this should be done while considering factors like cost-effectiveness, the local language of the area, and the most effective method of communication. This ensures that information is not just available but also accessible and understandable to a wider section of the public in a practical manner.

Oct/Nov 2022

20. Who is required to designate Central or State Public Information Officers (PIOs) in all its administrative units?
(A) The Central Information Commission
(B) The State Information Commission
(C) The Department of Personnel and Training
(D) Every public authority

Ans :

(D) Every public authority
The responsibility for appointing Public Information Officers rests with the individual public authorities themselves. The Act mandates that every public authority must designate Central Public Information Officers or State Public Information Officers, as the case may be, in all its administrative units or offices to handle information requests from citizens under the Act.

May/June 2025

21. What is the primary role of a Central/State Assistant Public Information Officer (APIO)?
(A) To decide whether the requested information can be disclosed.
(B) To act as the first appellate authority against the PIO's decision.
(C) To receive applications for information or appeals and forward them to the appropriate authority.
(D) To collect and compile information on behalf of the PIO.

Ans :

(C) To receive applications for information or appeals and forward them to the appropriate authority.
The Assistant Public Information Officer (APIO) primarily functions as a receiving point for the public. Their main duty is to accept RTI applications or first appeals and forward them to the concerned Public Information Officer, the senior officer (appellate authority), or the relevant Information Commission, facilitating access for citizens, especially at sub-district levels.

Oct/Nov 2015

22. If a Public Information Officer (PIO) seeks the assistance of another officer for providing information, what is the legal status of that other officer?
(A) They are considered an independent consultant with no liability.
(B) They are treated as a PIO for any contravention of the Act.
(C) They are exempt from any responsibility under the Act.

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competitive position. However, this exemption is not absolute. Such information can be disclosed if the competent authority determines that the public interest in making the information available outweighs the potential harm to the third party's interests.

May/June 2019

5. In relation to a public authority substantially financed by funds from a Union territory administration, who is the 'Appropriate Government'?
(A) The State Government of the adjoining state.
(B) The President of India.
(C) The Central Government or the Union territory administration.
(D) The Ministry of Home Affairs.

Ans :

(C) The Central Government or the Union territory administration.
The term 'Appropriate Government' is defined based on the source of establishment, control, or funding of a public authority. For a public authority that is established, constituted, owned, controlled, or substantially financed by funds provided directly or indirectly by the Central Government or a Union territory administration, the 'Appropriate Government' is the Central Government itself.

Oct/Nov 2007

6. Who is designated as the 'competent authority' under the RTI Act, 2005, in the case of the House of the People (Lok Sabha)?
(A) The President of India
(B) The Speaker
(C) The Prime Minister
(D) The Chief Justice of India

Ans :

(B) The Speaker
The RTI Act defines 'competent authority' for various constitutional bodies. For the House of the People (Lok Sabha), the Speaker is designated as the competent authority. Similarly, for a State Legislative Assembly, the Speaker of that assembly holds this designation, responsible for ensuring the implementation of the Act within that legislative body's jurisdiction.

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May/June 2021

7. According to the RTI Act, 2005, who is the 'competent authority' in the case of the Supreme Court of India?
(A) The President of India
(B) The Union Minister of Law and Justice
(C) A committee of five senior-most judges
(D) The Chief Justice of India

Ans :

(D) The Chief Justice of India
The Act specifies different 'competent authorities' for different branches of the government. In the context of the judiciary, the head of the respective court is designated as the competent authority. Therefore, for the Supreme Court of India, the Chief Justice of India is the competent authority responsible for the Act's implementation within the court's administration.

Oct/Nov 2025

8. For authorities established by or under the Constitution, other than the legislature or judiciary, who acts as the 'competent authority'?
(A) The President or the Governor, as the case may be
(B) The Prime Minister or the Chief Minister
(C) The administrator appointed under Article 239 of the Constitution
(D) The head of the concerned authority

Ans :

(A) The President or the Governor, as the case may be
The RTI Act provides a clear hierarchy for 'competent authority'. For constitutional authorities that are not part of the legislature or judiciary (e.g., UPSC, CAG), the competent authority is the President of India at the central level or the Governor of the state at the state level, depending on the jurisdiction under which the authority was established.

May/June 2009

9. Which of the following is NOT included in the definition of 'information' under the RTI Act, 2005?
(A) Data material held in any electronic form.
(B) Information relating to a private body accessible by a public authority.
(C) Personal thoughts and unrecorded opinions of an officer.
(D) Records, documents, memos, and e-mails.

Ans :

(C) Personal thoughts and unrecorded opinions of an officer.
The definition of 'information' under the Act is very broad, covering any material in any form such as records, documents, emails, and even information about private bodies accessible by a public authority. However, it is limited to material that is held or is under the control of the public authority. Personal, unrecorded thoughts are not 'held' material.

Oct/Nov 2011

10. Which of the following statements correctly defines a 'Public Authority' under the RTI Act?
1. Any body owned, controlled, or substantially financed by the appropriate Government.
2. Any authority or body established by or under the Constitution.
3. A non-Governmental organisation substantially financed directly or indirectly by Government funds.
4. Any authority established by a law made by Parliament or a State Legislature.

(A) All 1, 2, 3, and 4
(B) Only 1 and 4
(C) Only 2 and 3
(D) Only 1, 2, and 3

Ans :

(A) All 1, 2, 3, and 4
The definition of 'Public Authority' is comprehensive and covers a wide range of institutions. It includes any authority or institution of self-government established under the Constitution, by law of Parliament or State Legislature, or by government notification. It also explicitly includes bodies owned, controlled, or substantially financed by the government, including qualifying non-governmental organisations.

May/June 2016

11. As per the RTI Act, 2005, the term 'record' includes which of the following?
(A) Any document, manuscript, and file.
(B) Any microfilm, microfiche, and facsimile copy of a document.
(C) Any reproduction of an image embodied in a microfilm.
(D) All of the above.

Ans :

(D) All of the above.
The definition of 'record' under the Act is extensive to cover various forms of data storage. It encompasses traditional formats like documents, manuscripts, and files, as well as micro-storage formats like microfilm and microfiche. It also includes material produced by computers or any other device, ensuring that electronically stored information is also covered under this definition.

Oct/Nov 2014

12. The 'right to information' accessible under the RTI Act includes the right to do all of the following EXCEPT:
(A) Inspecting work, documents, and records.
(B) Demanding the creation of new information or interpretation of data.
(C) Taking certified samples of material.
(D) Obtaining information in the form of diskettes, floppies, or printouts.

Ans :

(B) Demanding the creation of new information or interpretation of data.
The 'right to information' allows citizens to access existing information held by a public authority. This includes inspection, taking notes, obtaining certified copies and samples, and receiving electronic data. However, the Act does not obligate the Public Information Officer (PIO) to create new information, provide interpretations, or solve problems raised by the applicant.

May/June 2024

13. How is a 'third party' defined within the context of the Right to Information Act, 2005?
(A) Any citizen who is not the applicant and is also not an employee of the public authority in question.
(B) Only a private company or a non-governmental organisation whose confidential data is being sought.
(C) A person other than the citizen making a request for information, and it includes a public authority.
(D) The first appellate authority to whom an appeal is preferred against the PIO's initial decision.

Ans :

(C) A person other than the citizen making a request for information, and it includes a public authority.

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A 'third party' under the RTI Act refers to any person or entity other than the citizen who has submitted the information request. Crucially, the definition also specifies that another public authority can be considered a 'third party' in the context of a specific RTI request, especially if the information sought pertains to or was supplied by that other authority.

Oct/Nov 2008

14. According to Section 3 of the RTI Act, 2005, who is conferred with the right to information?

(A) All persons, including foreign nationals residing in India.
(B) Only individuals who are above the poverty line.
(C) Only corporations and legal entities registered in India.
(D) All citizens of India.

Ans :

(D) All citizens of India.
Section 3 of the Act explicitly states, "Subject to the provisions of this Act, all citizens shall have the right to information." This provision clearly confers this fundamental right exclusively upon the citizens of India. The Act does not extend this statutory right to foreign nationals, corporations, or other legal entities, although they may access information through other means.

May/June 2017

15. What is a primary obligation of public authorities regarding their records to facilitate the right to information?

(A) To maintain all records duly catalogued and indexed.
(B) To destroy all records older than five years to save space.
(C) To keep all records in a single centralized location.
(D) To convert all physical records into microfilm format immediately.

Ans :

(A) To maintain all records duly catalogued and indexed.
To facilitate easy access and retrieval of information, the Act mandates that every public authority must maintain all its records in a properly catalogued and indexed manner. This obligation also includes computerizing records where appropriate and connecting them through a network, subject to the availability of resources, to ensure wider and faster access for citizens.

Oct/Nov 2020

16. Under the mandatory disclosure obligations of the RTI Act (Section 4), which of the following is an item a public authority must proactively publish?

(A) The personal investment details of its employees.
(B) A directory of its officers and employees.
(C) The minutes of all internal management meetings.
(D) A forecast of its future policy decisions.

Ans :

(B) A directory of its officers and employees.
Section 4(1)(b) of the RTI Act lists several categories of information that a public authority is obligated to disclose proactively. Item (ix) in this list explicitly mentions "a directory of its officers and employees." This is part of the suo motu disclosure requirement aimed at enhancing transparency and making it easier for the public to identify and contact relevant officials.

May/June 2013

17. How frequently are public authorities required to publish and update the information mandated under the disclosure obligations of the RTI Act?

(A) Every month
(B) Every year
(C) Every quarter
(D) Every five years

Ans :

(B) Every year
The Act places a significant emphasis on proactive disclosure to reduce the need for citizens to file individual requests. Under Section 4(1)(b), it is stipulated that every public authority should publish the specified categories of information and, crucially, update this published information every year to ensure its accuracy and relevance for the public.

Oct/Nov 2010

18. As per the obligations of public authorities, they must provide reasons for which of their decisions?

(A) For their administrative or quasi-judicial decisions to affected persons.
(B) Only for decisions that are challenged in a

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Ans :

(D) ₹2 per page
When information is provided in a printed format, the Act allows for the charging of an additional fee to cover the cost of materials. The rules specify a rate of ₹2 for each page of A-4 or A-3 size paper that is created or copied. This fee is in addition to the initial application fee of ₹10.

Oct/Nov 2018

28. What is the fee for the inspection of records for the first hour?
(A) ₹5
(B) No fee
(C) ₹10
(D) ₹50

Ans :

(B) No fee
The Act allows citizens to inspect government records directly. To encourage this form of access, the rules stipulate that there will be no fee charged for the first hour of inspection. For any subsequent period, a fee of ₹5 is charged for each fifteen-minute interval or fraction thereof, making initial inspection highly accessible for all citizens.

May/June 2006

29. Under which specific circumstance must the PIO provide the requested information completely free of charge?
(A) If the applicant is a student or a senior citizen.
(B) If the information is provided in an electronic format.
(C) If the PIO fails to provide the information within the specified time limit.
(D) If the information requested is for less than 10 pages.

Ans :

(C) If the PIO fails to provide the information within the specified time limit.
As a punitive measure and to enforce timeliness, the Act includes a significant provision regarding costs. If a Public Information Officer does not adhere to the prescribed time limits for providing information, the information must then be supplied to the applicant entirely free of charge, irrespective of the volume or format of the information provided.

Oct/Nov 2017

30. If a PIO rejects a request for information, which of the following must be communicated to the applicant?
(A) The reasons for the rejection.
(B) The period within which an appeal may be preferred.
(C) The particulars of the appellate authority.
(D) All of the above.

Ans :

(D) All of the above.
A mere rejection is not sufficient under the Act. When a PIO denies a request, they are obligated to provide the applicant with a comprehensive response. This includes the specific reasons for the rejection, information about the recourse available (appeal), the time frame for filing the appeal, and the contact details of the relevant appellate authority.

May/June 2010

31. Identify the correct set of information a PIO must provide to the applicant when allowing only partial access to a record.
1. The reasons for the decision of severance.
2. The name and designation of the person who made the decision.
3. Details of the fees to be paid.
4. The applicant's rights with respect to a review of the decision.

(A) 1, 2, 3, and 4
(B) 1 and 2 only
(C) 1, 2 and 3 only
(D) 3 and 4 only

Ans :

(A) 1, 2, 3, and 4
When providing partial information by severing exempt portions, the PIO must be transparent about the process. The communication to the applicant must include the reasons for the decision, identify the decision-maker, state the applicable fees for the disclosable part, and inform the applicant about their right to seek a review of this decision on non-disclosure.

Oct/Nov 2024

32. What is the standard application fee that must accompany a request for information under the RTI Act?
(A) ₹2
(B) ₹10

NODIA

(D) They are only required to provide advice but not any records.

Ans :

(B) They are treated as a PIO for any contravention of the Act.
When a PIO seeks assistance from another officer to properly discharge their duties, that officer is legally obligated to render all necessary help. The Act further stipulates that for the purpose of any contravention of its provisions, such an officer shall be treated as a de facto PIO, making them equally liable for penalties.

May/June 2018

23. Which of the following details is a citizen required to provide when making a request for information under the RTI Act?
(A) The reason for seeking the information.
(B) Proof of citizenship, such as an Aadhar card.
(C) Personal details like occupation and income.
(D) The particulars of the information sought.

Ans :

(D) The particulars of the information sought.
The procedure for obtaining information is designed to be simple. A person only needs to make a request in writing or electronically, specifying the particulars of the information they are seeking. The Act explicitly states that the applicant is not required to give any reason for the request or any other personal details beyond those necessary for contact.

Oct/Nov 2019

24. What is the standard time limit within which a Public Information Officer must respond to an RTI request?
(A) 30 days from the date of receipt.
(B) 15 days from the date of receipt.
(C) 45 days from the date of receipt.
(D) 60 days from the date of receipt.

Ans :

(A) 30 days from the date of receipt.
The Act prescribes a strict timeline for responding to information requests to ensure timely access. A Public Information Officer must either provide the requested information or reject the request within 30 days of its receipt. This deadline is a cornerstone of the Act's mechanism for ensuring that public authorities are responsive to citizen queries.

May/June 2020

25. An activist files an RTI application seeking details of a government project, which she believes poses an immediate threat to the lives of local residents. What is the maximum time the PIO has to provide this information?
(A) 30 days
(B) 5 days
(C) 48 hours
(D) 15 days

Ans :

(C) 48 hours
The Act provides for an expedited timeline in critical situations. If the information sought concerns the life or liberty of a person, the Public Information Officer is mandated to provide it within 48 hours of the receipt of the request. This special provision acknowledges the urgency and potential harm that delays could cause in such sensitive cases.

Oct/Nov 2005

26. What is the legal implication if a Public Information Officer fails to give a decision on an RTI request within the specified time period?
(A) It is considered a deemed refusal of the request.
(B) The request is automatically transferred to the appellate authority.
(C) The PIO is granted an automatic extension of 30 days.
(D) The applicant must submit a new application.

Ans :

(A) It is considered a deemed refusal of the request.
To ensure accountability, the Act includes a provision for "deemed refusal." If a PIO does not respond to a request for information within the stipulated time limit (30 days for normal requests or 48 hours for life/liberty cases), it is legally treated as if the request has been rejected, allowing the applicant to proceed with an appeal.

May/June 2023

27. What is the prescribed additional fee for providing information on an A-4 size paper under the RTI Act?
(A) ₹5 per page
(B) ₹1 per page
(C) ₹10 per page
(D) ₹2 per page

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of such information could harm international relations and is therefore protected from public access under the Act.

May/June 2011

37. Which of the following is NOT a valid ground for exemption from disclosure under the RTI Act?
(A) Information that would cause a breach of privilege of Parliament.
(B) Information that would impede the process of investigation.
(C) Information that may cause administrative inconvenience or embarrassment.
(D) Information that is related to commercial confidence or trade secrets.

Ans :

(C) Information that may cause administrative inconvenience or embarrassment.
The Act provides a specific list of exemptions, such as protecting national security, parliamentary privilege, trade secrets, and ongoing investigations. However, administrative inconvenience, potential embarrassment to the government or officials, or the possibility of creating extra work are not recognized as valid legal grounds for withholding information from a citizen under the Act.

Oct/Nov 2006

38. A citizen can file a complaint with the Central or State Information Commission for which of the following reasons?
(A) Believing they have been given incomplete, misleading, or false information.
(B) All of the above.
(C) Being required to pay a fee which they believe is unreasonable.
(D) Being refused access to any information requested.

Ans :

(B) All of the above.
The Information Commission serves as a grievance redressal body. A person can approach the Commission with a complaint on several grounds, including the refusal of access, non-response within the time limit, being charged an unreasonable fee, or receiving information that is believed to be incomplete, misleading, or patently false, among other issues.

NODIA

May/June 2022

39. What is the time limit for a person to file the first appeal with the officer senior in rank to the PIO, if they are aggrieved by the PIO's decision or non-response?
(A) 15 days
(B) 60 days
(C) 90 days
(D) 30 days

Ans :

(D) 30 days
The RTI Act provides a two-tier appeal mechanism. The first appeal lies with an officer within the same public authority who is senior in rank to the PIO. An applicant who has not received a timely response or is aggrieved by a PIO's decision must file this first appeal within thirty days from the date of the decision.

Oct/Nov 2009

40. Within how many days can a second appeal against the decision of the first appellate authority be made before the Central or State Information Commission?
(A) 90 days
(B) 30 days
(C) 45 days
(D) 60 days

Ans :

(A) 90 days
If an applicant is not satisfied with the outcome of the first appeal, they have the right to a second appeal. This second appeal is made to the Central Information Commission or the State Information Commission, as appropriate. The time limit prescribed for filing this second appeal is ninety days from the date the decision was received.

May/June 2014

41. What is the legal standing of a decision made by the Central Information Commission on a second appeal?
(A) It is advisory and not mandatory for the public authority.
(B) It can be challenged in any subordinate court.
(C) It is binding on the parties involved.
(D) It is valid only if approved by the concerned ministry.

Ans :

(C) ₹50
(D) No fee is required.

Ans :

(B) ₹10
To initiate a request for information, the applicant is required to pay a nominal application fee. The Act specifies this fee to be ₹10. This amount can be paid in cash against a receipt, or through a demand draft, a banker's cheque, or an Indian Postal Order, ensuring multiple convenient payment options for the citizen.

May/June 2008

33. What is the maximum time allowed for a public authority to transfer an RTI application to another public authority if the subject matter is more closely connected with the latter?
(A) 3 days
(B) 5 days
(C) 10 days
(D) 15 days

Ans :

(B) 5 days
If a public authority receives an application for information that it does not hold but which is held by another public authority, it is obligated to transfer the application. The Act mandates that this transfer must be completed within a maximum period of five days from the date of receipt of the application.

Oct/Nov 2013

34. How is the time taken to transfer an RTI application (up to 5 days) accounted for in the overall 30-day limit for providing information?
(A) It is excluded from the 30-day limit.
(B) It is included within the 30-day limit.
(C) It extends the 30-day limit by an additional 30 days.
(D) It is at the discretion of the PIO to include or exclude it.

Ans :

(A) It is excluded from the 30-day limit.
When an application is transferred from one public authority to another, the 5-day period allowed for the transfer is not counted towards the 30-day deadline for the receiving PIO. This means the 30-day clock for the PIO who ultimately holds the information starts after the transfer is complete, ensuring they have the full stipulated time.

May/June 2015

35. A PIO at a public sector bank receives an RTI request for a customer's account details, which the customer had provided in confidence. The PIO believes disclosing this might cause harm to the customer's interests. What is the most appropriate first step for the PIO?
(A) Reject the request immediately as it is third-party information.
(B) Disclose the information as public interest is always paramount.
(C) Consult the third party (the customer) and consider their submission before making a decision.
(D) Transfer the application to the head office for a decision.

Ans :

(C) Consult the third party (the customer) and consider their submission before making a decision.
The Act outlines a specific procedure for handling third-party information treated as confidential. The PIO must consult the third party, inform them of the request, and invite them to make a submission on whether the information should be disclosed. The PIO then decides by weighing the public interest against any potential harm or injury.

Oct/Nov 2012

36. Referring to the exemptions under Section 8 of the RTI Act, which of the following categories of information is explicitly exempt from disclosure?
(A) Information related to subsidy programmes and their beneficiaries.
(B) A directory of the public authority's officers and employees.
(C) Details of the budget allocated to an agency.
(D) Information received in confidence from a foreign Government.

Ans :

(D) Information received in confidence from a foreign Government.
Section 8 of the RTI Act enumerates specific categories of information that are exempt from the mandatory disclosure provisions. Section 8(1)(f) explicitly exempts 'information received in confidence from foreign Government'. Disclosure

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CHAPTER 21

The Right to Information Act, 2005

May/June 2012

1. What is the primary stated objective of the Right to Information Act, 2005?

(A) To replace the Freedom of Information Act, 2002 with a more robust law.

(B) To establish a practical regime for citizens to access information under the control of public authorities.

(C) To create a new machinery for the appointment of Information Commissioners at Central and State levels.

(D) To exclusively regulate the disclosure of information by public sector banks and financial institutions.

Ans :

(B) To establish a practical regime for citizens to access information under the control of public authorities.

The Right to Information Act, 2005 was enacted with the specific intent to provide a practical framework for citizens to access information held by public authorities. This is done to promote transparency and accountability in the functioning of every public authority, thereby containing corruption and making governments more accountable to the people they govern.

Oct/Nov 2023

2. Which legislative act was repealed upon the enactment of the Right to Information Act, 2005?

(A) The Freedom of Information Act, 2002

(B) The Official Secrets Act, 1923

(C) The Public Records Act, 1993

(D) The Indian Evidence Act, 1872

Ans :

(A) The Freedom of Information Act, 2002

Upon the coming into force of the Right to Information Act in 2005, its predecessor, the Freedom of Information Act, 2002, was repealed. The 2005 Act was introduced to create a more effective and practical machinery for ensuring citizens' access to information, superseding the provisions of the earlier 2002 legislation on the same subject.

May/June 2005

3. To which of the following entities does the Right to Information Act, 2005 apply?

(A) Only to Central Government departments and ministries.

(B) Only to private sector companies and non-governmental organisations.

(C) All public sector banks and other institutions owned and controlled by the Government.

(D) Only to the judiciary and legislative bodies of the Central and State Governments.

Ans :

(C) All public sector banks and other institutions owned and controlled by the Government.

The Act extends to the whole of India and is applicable to all public authorities. This explicitly includes all public sector banks and other institutions that are owned and controlled by the Government. These entities are defined as public authorities under the Act and are therefore required to comply with all its provisions regarding information disclosure.

Oct/Nov 2016

4. Under what condition can information involving commercial confidence or trade secrets of a third party be disclosed under the RTI Act?

(A) If the applicant is a direct competitor of the third party.

(B) If the information is more than 20 years old.

(C) If the third party gives written consent for the disclosure.

(D) If the competent authority is satisfied that a larger public interest warrants the disclosure.

Ans :

(D) If the competent authority is satisfied that a larger public interest warrants the disclosure.

The Act provides an exemption for disclosing information like commercial confidence and trade secrets that could harm a third party's

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(C) It is binding on the parties involved.
The Central Information Commission is the highest appellate body under the Act. Its decisions on appeals are final and legally binding on all parties, including the public authority and the appellant. The Act explicitly states that the Commission's decision shall be binding, ensuring that its orders for disclosure, compensation, or penalties are duly implemented.

Oct/Nov 2021

42. In deciding an appeal, which of the following orders can the Central Information Commission NOT pass?
(A) Initiate criminal proceedings against the concerned PIO.
(B) Require the public authority to compensate the complainant for any loss.
(C) Impose any of the penalties provided under the Act.
(D) Reject the appeal.

Ans :

(A) Initiate criminal proceedings against the concerned PIO.
The Central Information Commission has wide-ranging powers in an appeal. It can order the public authority to comply with the Act, provide compensation, and impose penalties on the PIO. It can also recommend disciplinary action. However, the power to initiate criminal proceedings is not within the scope of the orders it can pass under the Act.

May/June 2023

43. What is the maximum number of Central Information Commissioners that can be appointed, in addition to the Chief Information Commissioner?
(A) Five
(B) Twelve
(C) Fifteen
(D) Ten

Ans :

(D) Ten
The Central Information Commission is structured to handle a significant volume of appeals and complaints. The Act specifies its composition, which consists of the Chief Information Commissioner and a number of Central Information Commissioners. The maximum number of these commissioners is explicitly capped at ten, ensuring a robust but manageable size for the Commission.

Oct/Nov 2018

44. Assertion (A): The President of India appoints the Chief Information Commissioner.
Reason (R): The appointment is made on the recommendation of a committee consisting of the Prime Minister, the Leader of Opposition in the Lok Sabha, and a Union Cabinet Minister nominated by the Prime Minister.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The Assertion is true as the President appoints the Chief Information Commissioner. The Reason is also true as it correctly describes the composition of the high-powered selection committee. The Reason provides the exact procedural basis for the President's appointment, making it the correct explanation for the Assertion, as the President acts on the committee's recommendation.

May/June 2005

45. Which of the following is a disqualification for being appointed as a Chief Information Commissioner or an Information Commissioner?
(A) Holding a postgraduate degree in social service.
(B) Having wide knowledge and experience in law or science.
(C) Being a Member of Parliament or a State Legislature.
(D) Being a person of eminence in public life and governance.

Ans :

(C) Being a Member of Parliament or a State Legislature.
To ensure the impartiality and independence of the Information Commission, the Act lays down specific disqualifications. A person cannot be appointed as a Commissioner if they are a Member of Parliament or a Member of the Legislature of any State or Union Territory, hold

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Ans :

(A) The firm is automatically dissolved.
The death of a partner results in the dissolution of the partnership firm, unless there is a contract to the contrary in the partnership deed. Upon receiving notice of a partner's death, a bank should stop operations in a running credit facility like a cash credit account to crystallize the liability of the deceased partner's estate.

Oct/Nov 2011

19. Under which school of Hindu Law does a son acquire a right over ancestral property only upon the father's death, i.e., by survivorship?
(A) Mitakshara Law
(B) Arya Samaj Law
(C) Dayabhaga Law
(D) Brahmo Samaj Law

Ans :

(C) Dayabhaga Law
Hindu Undivided Family (HUF) is governed by two main schools of thought. Under the Dayabhaga Law, prevalent in Bengal and parts of the erstwhile Bengal province, a son does not acquire a right in ancestral property by birth. Instead, he acquires the right for the first time upon the death of his father, through survivorship.

May/June 2024

20. The Hindu Succession (Amendment) Act, 2005, brought a significant change regarding the rights of daughters in a Hindu Undivided Family (HUF). What status did it confer upon them?
(A) Status of a coparcener with rights equal to a son.
(B) Right to maintenance from the HUF property.
(C) Status of a Karta in the absence of male members.
(D) Right to act as a guardian for minor members.

Ans :

(A) Status of a coparcener with rights equal to a son.
The Hindu Succession (Amendment) Act, 2005, was a landmark reform that granted daughters equal rights to sons in matters of inheritance in a Hindu Undivided Family. It conferred the status of a coparcener on a daughter by birth, giving her the same rights and liabilities in the coparcenary property as a son.

Oct/Nov 2013

21. In a Hindu Undivided Family (HUF), what is the extent of liability of the Karta and the other coparceners, respectively?
(A) Both Karta and coparceners have unlimited liability.
(B) Both Karta and coparceners have limited liability.
(C) Karta has limited liability; coparceners have unlimited liability.
(D) Karta has unlimited liability; coparceners have limited liability.

Ans :

(D) Karta has unlimited liability; coparceners have limited liability.
In an HUF, the liability of the 'Karta' or manager is unlimited, meaning his personal assets can be used to settle the family's business debts. In contrast, the liability of the other coparceners is limited to the extent of their respective shares in the joint family estate, unless they have personally ratified the loan contract.

May/June 2007

22. Read the following excerpt regarding the case of Salomon vs. Salomon & Co. Ltd. (1897): "The company went into liquidation and various unsecured creditors contended that Mr. Salomon could not be treated as a secured creditor in respect of debentures held by him." Based on the principle of 'corporate personality' established in this case, what was the likely ruling?
(A) Mr. Salomon and the company were deemed to be the same legal entity, thus invalidating his claim as a secured creditor.
(B) The company was a different legal person from its shareholders, so Mr. Salomon was a valid secured creditor.
(C) The court prioritized unsecured creditors, ruling they must be paid before any shareholders who also hold company debentures.
(D) The incorporation was ruled a sham transaction designed to defraud creditors and therefore the corporate veil should be pierced.

Ans :

(B) The company was a different legal person from its shareholders, so Mr. Salomon was a valid secured creditor.

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The Act provides for a daily penalty for delays in furnishing information. The penalty is set at ₹250 for each day of delay. In this case, the delay is 12 days. Therefore, the total penalty would be calculated as 12 ×₹250 =₹3,000, subject to the overall maximum of ₹25,000.

May/June 2009

51. What is the maximum monetary penalty that the Information Commission can impose on a Public Information Officer for violations under the RTI Act?
(A) ₹10,000
(B) ₹50,000
(C) ₹25,000
(D) ₹1,00,000

Ans :

(C) ₹25,000
While the penalty for delay is calculated on a per-day basis at ₹250, the Act places a ceiling on the total amount that can be levied. The maximum penalty that can be imposed on a Public Information Officer, regardless of the duration of the delay or the severity of the offense, is capped at ₹25,000.

Oct/Nov 2011

52. According to Section 20 of the RTI Act, which of the following actions by a PIO can lead to a recommendation for disciplinary action by the Information Commission?
(A) Transferring an application to another public authority.
(B) Asking the applicant for an additional fee as per rules.
(C) Seeking assistance from another officer to provide the information.
(D) Knowingly giving incorrect, incomplete, or misleading information.

Ans :

(D) Knowingly giving incorrect, incomplete, or misleading information.
Section 20(2) of the Act empowers the Commission to recommend disciplinary action against a PIO under their service rules for specific grave misconducts. One such listed offense is when a PIO has persistently or knowingly given incorrect, incomplete, or misleading information. This goes beyond mere delay and points to a mala fide intent to obstruct information access.

May/June 2016

53. The provisions of the RTI Act, 2005, have an overriding effect over any inconsistent provisions contained in which of the following Acts?
(A) The Indian Penal Code, 1860
(B) The Code of Civil Procedure, 1908
(C) The Official Secrets Act, 1923
(D) The Companies Act, 2013

Ans :

(C) The Official Secrets Act, 1923
The RTI Act, 2005, establishes the primacy of transparency over secrecy. Section 22 of the Act explicitly states that its provisions will have effect "notwithstanding anything inconsistent therewith contained in the Official Secrets Act, 1923," and any other law. This means that in case of a conflict, the provisions of the RTI Act will prevail.

Oct/Nov 2014

54. An applicant, aggrieved by a final order from the State Information Commission, decides to challenge it. What is the appropriate legal recourse available to the applicant?
(A) Filing a new civil suit in the relevant District Court to seek damages.
(B) Filing an appeal under the Act, as no court can entertain a suit.
(C) Filing a fresh RTI application on the same subject after a cooling-off period.
(D) Filing a direct appeal to the Central Information Commission for a final review.

Ans :

(B) Filing an appeal under the Act, as no court can entertain a suit.
The Act explicitly bars the jurisdiction of courts in matters related to orders made under it. Section 23 states, "No court shall entertain any suit, application or other proceeding in respect of any order made under this Act and no such order shall be called in question otherwise than by way of an appeal under this Act."

May/June 2024

55. Based on the Act's provisions for organisations specified in the Second Schedule, under what circumstance can information from an intelligence or security organisation be provided?
(A) It can never be provided under any circumstance.

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(B) If the loan was guaranteed by the minor's guardian.
(C) If the loan was for the supply of necessities of life.
(D) If the minor pledged family assets against the loan.

Ans :

(C) If the loan was for the supply of necessities of life.
A contract with a minor is void. However, Section 68 of the Indian Contract Act provides an exception. If a bank lends money to a minor specifically to meet expenses for purchasing necessities of life, the bank can recover the amount from the estate or property of the minor. This is the only recognized exception for recovering loans to minors.

May/June 2019

10. As per Section 12 of the Indian Contract Act, 1872, a person is considered to be of unsound mind for the purpose of making a contract if, at the time of making it, they are incapable of:
(A) Understanding the contract and forming a rational judgment of its effect on their interests.
(B) Providing valid government-issued identification documents for verification.
(C) Speaking or writing fluently in the official language used in the contract.
(D) Obtaining prior written consent from their legally appointed guardian or representative.

Ans :

(A) Understanding the contract and forming a rational judgment of its effect on their interests.
Section 12 of the Indian Contract Act, 1872, defines a sound mind for contracting purposes. A person is deemed of unsound mind if, at the time of entering the contract, they cannot understand its terms and rationally judge its potential effect on their own interests. A contract made by such a person is invalid and unenforceable.

Oct/Nov 2014

11. When lending to an illiterate person who executes documents by thumb impression, what crucial precaution must a banker take?
(A) Ensure the person is accompanied by a family member.
(B) Obtain a court order authorizing the transaction.
(C) Insist on a photograph of the person affixing the thumb impression.
(D) Have the documents read out and explained in the presence of witnesses.

Ans :

(D) Have the documents read out and explained in the presence of witnesses.
While an illiterate person has the capacity to contract, extra precautions are necessary to ensure the validity of the agreement. The banker must ensure that the documents are read aloud and clearly explained to the executant. This should be done in the presence of witnesses, and a recital confirming this, duly witnessed, should be obtained with the documents.

May/June 2006

12. What is the primary characteristic regarding the liability of a sole proprietor in a proprietorship firm?
(A) Liability is limited to the capital invested in the business.
(B) Liability is unlimited, extending to the proprietor's personal assets.
(C) Liability is shared with the proprietor's family members.
(D) Liability is nullified if the business is not registered.

Ans :

(B) Liability is unlimited, extending to the proprietor's personal assets.
A key feature of a proprietorship firm is that it is not legally distinct from its owner. Consequently, the liability of the sole proprietor is unlimited. In case of business debts, creditors can have recourse not only against the assets employed in the business but also against the private and personal assets of the proprietor.

Oct/Nov 2017

13. According to Section 4 of the Indian Partnership Act, 1932, a partnership is defined as the relation between persons who have agreed to share the profits of a business carried on by:
(A) All of them exclusively.
(B) A designated managing partner only.
(C) All or any of them acting for all.
(D) An external agent appointed by them.

Ans :

(C) All or any of them acting for all.

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(D) Its provisions prevail over any inconsistent law, except constitutional provisions.

Ans :

(D) Its provisions prevail over any inconsistent law, except constitutional provisions.
Section 22 of the RTI Act establishes its supremacy. It states that the Act's provisions shall have effect "notwithstanding anything inconsistent therewith contained in the Official Secrets Act, 1923, and any other law for the time being in force". This gives the right to information a powerful legal standing over other conflicting statutes.

Oct/Nov 2010

60. Match the entity in List-I with its corresponding 'Competent Authority' under the RTI Act in List-II.
List-I
P. Council of States (Rajya Sabha)
Q. High Court
R. A Union Territory without a Legislative Assembly
S. House of the People (Lok Sabha)
List-II
1. The Chief Justice of the High Court
2. The Speaker
3. The Chairman
4. The administrator appointed under Article 239
(A) P-3, Q-1, R-4, S-2
(B) P-2, Q-4, R-1, S-3
(C) P-3, Q-2, R-4, S-1
(D) P-1, Q-3, R-2, S-4

Ans :

(A) P-3, Q-1, R-4, S-2
The Act defines 'competent authority' for different bodies. For the Council of States, it is the Chairman (P-3). For a High Court, it is the Chief Justice of that court (Q-1). For a Union Territory, it is the administrator appointed under Article 239 (R-4). For the House of the People, it is the Speaker (S-2).

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any other office of profit, or are connected with any political party.

Oct/Nov 2016

46. What is the prescribed tenure of office for the Chief Information Commissioner?
(A) A fixed term of 5 years, irrespective of age.
(B) A fixed term of 6 years or up to the age of 65 years, whichever is earlier.
(C) For 5 years or up to the age of 70 years, whichever is earlier.
(D) For a term of 3 years as prescribed by the Central Government, or up to the age of 65 years, whichever is earlier.

Ans :

(D) For a term of 3 years as prescribed by the Central Government, or up to the age of 65 years, whichever is earlier.
As per rules amended in 2019, the Chief Information Commissioner holds office for a term prescribed by the Central Government (currently 3 years) or until they attain the age of 65 years, whichever is earlier. They are not eligible for reappointment.

May/June 2019

47. Where is the headquarters of the Central Information Commission located?
(A) Delhi
(B) Mumbai
(C) Kolkata
(D) Chennai

Ans :

(A) Delhi
The Act specifies the administrative center for the highest appellate body in the RTI framework. The headquarters of the Central Information Commission is established in Delhi. However, the Act also provides the flexibility for the Commission to establish offices in other parts of India as it may deem necessary to discharge its functions effectively across the country.

Oct/Nov 2007

48. Statement I: The State Information Commission consists of one State Chief Information Commissioner and not more than ten State Information Commissioners.
Statement II: The members of the State Information Commission are appointed by the President of India on the recommendation of the Chief Minister.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Ans :

(C) Statement I is correct, but Statement II is incorrect.
Statement I is correct as the structure of the State Information Commission mirrors the Central one, with a Chief and up to ten Commissioners. Statement II is incorrect because the members of the State Information Commission are appointed by the Governor of the state, not the President, based on the recommendation of a state-level committee.

May/June 2021

49. Who is the chairperson of the committee responsible for recommending the appointment of the State Chief Information Commissioner?
(A) The Governor of the State
(B) The Chief Minister
(C) The Chief Justice of the High Court
(D) The Speaker of the Legislative Assembly

Ans :

(B) The Chief Minister
The appointment process for the State Information Commission is led at the state level. The selection committee is chaired by the Chief Minister of the state. This committee, which also includes the Leader of the Opposition in the Legislative Assembly and a Cabinet Minister nominated by the Chief Minister, recommends the names to the Governor for appointment.

Oct/Nov 2025

50. A PIO, without any valid reason, fails to provide information for 12 days past the 30-day deadline. If the Information Commission decides to impose a penalty, what would be the calculated amount?
(A) ₹3,000
(B) ₹2,500
(C) ₹6,000
(D) ₹25,000

Ans :

(A) ₹3,000

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margin of 3% to 4% is generally considered essential to cover administrative costs and ensure profitability.

Oct/Nov 2005

5. What is the primary focus of the 'Purpose' principle of lending?
(A) To ensure the borrower provides adequate collateral.
(B) To assess the overall profitability of the customer relationship.
(C) To ensure the loan is used for productive or specified consumption purposes.
(D) To ensure the loan is repaid as per the schedule.

Ans :

(C) To ensure the loan is used for productive or specified consumption purposes.
The principle of purpose mandates that banks should lend for productive activities that generate income, facilitating repayment. Banks cannot lend merely on request. While loans for consumption purposes like housing, education, and medical expenses are permitted, undesirable and speculative activities are avoided. The RBI also specifies certain prohibited sectors to ensure funds are used wisely.

May/June 2025

6. A bank decides to limit its loan exposure to the textile industry and also avoids concentrating its lending in a single geographical area. Which cardinal principle of lending is the bank adhering to?
(A) Security
(B) Diversification of Risks
(C) Profitability
(D) Purpose

Ans :

(B) Diversification of Risks
The bank is practicing the principle of diversification of risks. This principle advises against concentration risk by avoiding over-exposure to a single borrower, group, industry, or geography. This strategy mitigates the impact of adverse events like business cycles, political disturbances, or natural calamities that could paralyze a specific sector or region and jeopardize the bank's portfolio.

Oct/Nov 2012

7. The '7 Cs of Credit' is a conceptual framework for evaluating a borrower's creditworthiness. Which of the following is NOT one of the 7 Cs mentioned?
(A) Character
(B) Collateral
(C) Conditions
(D) Consistency

Ans :

(D) Consistency
The 7 Cs of Credit provide a framework for assessing a borrowing request. The components mentioned are Character, Capacity, Capital, Collateral, Conditions, Cash Flows, and Creditworthiness. 'Consistency' is not part of this specific framework, although it might be considered a desirable trait in a borrower's performance. The 7 Cs offer a comprehensive evaluation model.

May/June 2008

8. Under the Indian Contract Act, which of the following individuals is considered competent to enter into a contract for a loan?
(A) A married woman with independent means.
(B) A minor who requires funds for starting a new business.
(C) A person of unsound mind at the time of making the contract.
(D) A person declared as a non-discharged insolvent.

Ans :

(A) A married woman with independent means.
The law does not debar a married woman from seeking an advance and she is treated on the same footing as a man, provided she has independent means and the ability to repay. Minors (except for necessities), persons of unsound mind, and disqualified persons like non-discharged insolvents are considered incompetent to contract, making loans to them generally irrecoverable.

Oct/Nov 2023

9. According to Section 68 of the Indian Contract Act, under what specific circumstance can a bank recover money lent to a minor?
(A) If the loan was used for a speculative business venture.

CHAPTER 22

Principles of Lending, Different Types of Borrowers, and Types of Credit Facilities

Oct/Nov 2016

1. According to the cardinal principles of lending, which principle is considered the most important, ensuring that the advanced funds will be repaid?
(A) Profitability
(B) Safety
(C) Liquidity
(D) Purpose

Ans :

(B) Safety
Safety is the foremost principle of good lending. It ensures the security of the funds lent, which are public deposits. The primary concern for a banker is the certainty that the money will be returned. Repayment depends on the borrower's capacity, willingness to pay, and income generation, all of which are assessed under the safety principle.

May/June 2010

2. Which three factors primarily determine the repayment of a loan, which a banker must carefully assess under the principle of 'Safety'?
(A) The borrower's capacity to pay, willingness to pay, and income generation
(B) The borrower's age, education, and family background
(C) The market value of security, location of business, and industry type
(D) The loan purpose, amount, and tenure

Ans :

(A) The borrower's capacity to pay, willingness to pay, and income generation
The principle of safety mandates that a banker must be satisfied about the repayment prospects of a loan. This assessment hinges on three critical aspects of the borrower: their financial capacity to generate sufficient funds for repayment, their honest intention or willingness to repay the debt, and the consistent income-generating ability of the business or activity being financed.

Oct/Nov 2021

3. The principle of 'Liquidity' in lending primarily ensures that:
(A) The bank earns the maximum possible interest on the loan.
(B) The loan is used only for productive and non-speculative purposes.
(C) The money lent is not locked up for an excessively long period.
(D) The risk is spread across various borrowers and industries.

Ans :

(C) The money lent is not locked up for an excessively long period.
The principle of liquidity dictates that funds lent by a bank should not be tied up for extended durations. As banks primarily use depositors' money, which is repayable on demand or at maturity, they must ensure their assets (loans) are liquid enough to meet these liabilities. This is managed through asset liability management and appropriate repayment schedules.

May/June 2014

4. To meet administrative expenses and provide dividends to stakeholders, what is the essential interest margin between lending and borrowing that banks typically aim for, as per the principle of 'Profitability'?
(A) 1% to 2%
(B) 5% to 6%
(C) 6% to 7%
(D) 3% to 4%

Ans :

(D) 3% to 4%
As commercial organizations, banks must earn a fair return on their investments. The principle of profitability highlights the need for a sufficient margin between the interest earned on advances and the interest paid on deposits. An interest

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Section 4 of the Indian Partnership Act, 1932, defines a partnership as the relationship between individuals who have agreed to share business profits. A crucial element of this definition is the concept of mutual agency, where the business is conducted by all the partners or by any one or more of them acting on behalf of all.

May/June 2022

14. What is the current maximum number of partners allowed in a partnership firm formed for the purpose of gain, as per the Companies (Miscellaneous) Rules, 2014?
(A) 20
(B) 100
(C) 200
(D) 50

Ans :

(D) 50
Section 464(1) of the Companies Act, 2013, prescribes that the maximum number of partners in an association cannot exceed one hundred. However, it delegates the power to prescribe a lower number. Subsequently, the Companies (Miscellaneous) Rules, 2014, have set the current maximum limit for a partnership carrying on business for gain at fifty persons.

Oct/Nov 2009

15. Which of the following is a major consequence for an unregistered partnership firm?
(A) The firm cannot file a suit against a third party to enforce a contractual right.
(B) The firm is legally barred from owning any immovable property in its own name.
(C) The partners automatically face unlimited personal liability for all business debts.
(D) The partnership deed is considered legally void and unenforceable between the partners.

Ans :

(A) The firm cannot file a suit against a third party to enforce a contractual right.
While registration of a partnership firm is not compulsory under the Partnership Act, 1932, non-registration imposes significant disabilities. A key consequence is that an unregistered firm, or any person on its behalf, cannot institute a suit in any court against a third party to enforce a right arising from a contract entered into by the firm.

May/June 2011

16. If a partner in a trading partnership firm borrows money on behalf of the firm for its ordinary course of business, this act binds the firm due to:
(A) Express Authority
(B) Implied Authority
(C) Ratified Authority
(D) Apparent Authority

Ans :

(B) Implied Authority
Under Section 19 of the Indian Partnership Act, 1932, a partner in a trading firm has certain implied powers to bind the firm. These include the power to borrow money on the firm's behalf for its ordinary business activities. This authority is considered 'implied' because it is inherent to the nature of a trading partnership's business.

Oct/Nov 2020

17. Upon receiving notice of the insolvency of an entire partnership firm, what action should a bank immediately take regarding the firm's account, irrespective of its balance?
(A) Allow only the solvent partners to operate the account.
(B) Stop all further transactions in the account.
(C) Transfer the credit balance to the personal account of a partner.
(D) Continue normal operations until a court order is received.

Ans :

(B) Stop all further transactions in the account.
On receiving a notice of insolvency of the firm, the bank must immediately stop all transactions in the account, whether it is in credit or debit. This action is crucial to protect the bank's position and comply with legal requirements concerning insolvency proceedings. The account is frozen pending instructions from the official receiver appointed by the court.

May/June 2015

18. What is the legal effect of the death of a partner on a partnership firm?
(A) The firm is automatically dissolved.
(B) The firm continues with the legal heirs of the deceased partner.
(C) The firm's liabilities are transferred to the deceased partner's estate only.
(D) The firm must be converted into a Limited Liability Partnership (LLP).

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(B) Only if the head of the organisation personally approves it.
(C) If the information is more than 20 years old.
(D) Only for information pertaining to allegations of corruption and human rights violations.

Ans :

(D) Only for information pertaining to allegations of corruption and human rights violations.
While the Act generally does not apply to intelligence and security organisations listed in the Second Schedule, it provides a critical proviso. This exemption does not extend to information related to allegations of corruption and human rights violations. Such information cannot be withheld, making these organisations accountable in cases of grave misconduct.

Oct/Nov 2008

56. A citizen seeks information from a security organisation regarding an alleged human rights violation. What procedural step is mandatory before this information can be disclosed?
(A) The information can only be provided after the approval of the Central Information Commission.
(B) The request must be countersigned by a Member of Parliament.
(C) The applicant must deposit a security fee of ₹1,000.
(D) The information can be released immediately by the PIO of the organisation.

Ans :

(A) The information can only be provided after the approval of the Central Information Commission.
Even when information about human rights violations is sought from an exempt security organisation, there is an additional safeguard. The Act stipulates that such information shall only be provided after obtaining the approval of the Central Information Commission (or State Commission, as applicable). This ensures a high-level review before sensitive information is released.

May/June 2017

57. As per the exception clause for security organisations established by the Central Government, information pertaining to which two types of allegations are not excluded from disclosure?
(A) National security and foreign relations.
(B) Financial irregularities and administrative lapses.
(C) Corruption and human rights violations.
(D) Espionage and counter-intelligence operations.

Ans :

(C) Corruption and human rights violations.
The Act explicitly carves out an exception to the general exemption granted to security and intelligence organizations. It states that "information pertaining to the allegations of corruption and human rights violations shall not be excluded under this provision." This ensures that these bodies remain accountable for certain fundamental aspects of public integrity and individual rights.

Oct/Nov 2020

58. Identify the incorrect statement regarding the State Information Commission.
(A) A State Information Commissioner is eligible for reappointment for a second term.
(B) It consists of a State Chief Information Commissioner and not more than ten State Information Commissioners.
(C) The members are appointed by the Governor of the State.
(D) The Chief Minister chairs the appointment recommendation committee.

Ans :

(A) A State Information Commissioner is eligible for reappointment for a second term.
The rules for the State Information Commission largely mirror those for the Central Commission. While a State Information Commissioner is eligible for appointment as the State Chief Information Commissioner upon vacating their office, the Act clearly states that they "shall not be eligible for reappointment" to the same post of Information Commissioner for another term.

May/June 2013

59. Which statement accurately reflects the overriding effect of the RTI Act, 2005?
(A) It is subordinate to the Official Secrets Act, 1923.
(B) It can be overridden by any subsequent law passed by Parliament.
(C) Its orders can be challenged in any civil court.

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The Salomon vs. Salomon case firmly established the principle of separate corporate personality. The court held that a company is a legal entity distinct from its members, even if one member holds almost all the shares. Therefore, Mr. Salomon, in his capacity as a debenture holder, was a valid secured creditor of the company, separate from his role as a shareholder.

Oct/Nov 2018

23. Which of the following is NOT a characteristic of a company?
(A) It has perpetual existence.
(B) It can sue and be sued in its own name.
(C) The liability of its members is unlimited.
(D) The shares of a public company are freely transferable.

Ans :

(C) The liability of its members is unlimited.
A fundamental characteristic of a company, particularly a company limited by shares, is that the liability of its members (shareholders) is limited. A shareholder's liability is restricted to the nominal value of the shares they hold, specifically the amount that remains unpaid on those shares. Unlimited liability is a feature of sole proprietorships and general partnerships, not companies.

May/June 2021

24. A private company, as defined by its Articles of Association, has certain restrictions. Which of the following is NOT one of these restrictions?
(A) It restricts the right to transfer its shares.
(B) It limits the number of its members to 200.
(C) It prohibits any invitation to the public to subscribe for its securities.
(D) It can accept deposits from the public.

Ans :

(D) It can accept deposits from the public.
A key feature of a private company is that it is prohibited from making any invitation to the public to subscribe for any of its securities. Consequently, it cannot accept deposits from the public at large. It must also restrict the right to transfer shares and limit its number of members to 200 (excluding certain employees).

Oct/Nov 2025

25. What is the minimum percentage of share capital that the Central and/or State Government(s) must hold for a company to be classified as a 'Government Company'?
(A) 26%
(B) 49%
(C) 51%
(D) 100%

Ans :

(C) 51%
A 'Government Company' is defined as any company in which not less than fifty-one percent (51%) of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments. A subsidiary of a Government Company is also considered a Government Company.

May/June 2012

26. An entity is classified as a 'Small Company' if its paid-up share capital and turnover are below certain thresholds. What are these thresholds?
(A) Paid-up capital not exceeding ₹10 lakh and turnover not exceeding ₹1 crore.
(B) Paid-up capital not exceeding ₹50 lakh and turnover not exceeding ₹2 crore.
(C) Paid-up capital not exceeding ₹1 crore and turnover not exceeding ₹5 crore.
(D) Paid-up capital not exceeding ₹2 crore and turnover not exceeding ₹10 crore.

Ans :

(B) Paid-up capital not exceeding ₹50 lakh and turnover not exceeding ₹2 crore.
A 'Small Company' is a company (other than a public company) with a paid-up share capital that does not exceed ₹50 lakh and a turnover, as per its last profit and loss account, that does not exceed ₹2 crore. However, this definition excludes holding companies, subsidiary companies, and certain other specified entities.

Oct/Nov 2010

27. A company in which a holding company controls the composition of the Board of Directors or exercises more than $\frac{1}{2}$ of the total voting power is known as a:
(A) Associate Company
(B) Foreign Company
(C) Government Company
(D) Subsidiary Company

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Ans :

(D) Subsidiary Company
A subsidiary company is defined in relation to a holding company. This relationship exists if the holding company controls the composition of the subsidiary's Board of Directors or controls more than half ($\frac{1}{2}$) of the total voting power, either on its own or together with one or more of its other subsidiary companies.

May/June 2005

28. What is the minimum number of persons required to form a public company and a private company, respectively, under the Companies Act, 2013?
(A) 7 for a public company, 2 for a private company.
(B) 2 for a public company, 7 for a private company.
(C) 5 for a public company, 2 for a private company.
(D) 10 for a public company, 5 for a private company.

Ans :

(A) 7 for a public company, 2 for a private company.
The Companies Act, 2013, specifies the minimum number of members required for incorporation. A public company can be formed by seven or more persons. A private company requires a minimum of two or more persons. A One Person Company (OPC), as the name suggests, can be formed by a single person.

Oct/Nov 2022

29. Which two documents are considered fundamental for a company, defining its objects, business scope, and the rules for its internal management?
(A) Certificate of Incorporation and Certificate of Commencement of Business
(B) Prospectus and Share Certificates
(C) Memorandum of Association (MoA) and Articles of Association (AoA)
(D) Annual Report and Audited Financial Statements

Ans :

(C) Memorandum of Association (MoA) and Articles of Association (AoA)
The Memorandum of Association (MoA) and the Articles of Association (AoA) are the two core constitutional documents of a company. The MoA is the company's charter, defining its objects and the scope of its operations. The AoA contains the rules and regulations that govern the company's internal management and administration.

May/June 2018

30. Why is it critical for a banker to examine a company's Memorandum of Association (MoA) before granting a loan?
(A) To check that the business for which the loan is sought is within the company's objects clause.
(B) To verify the names and addresses of the directors.
(C) To ensure the company's name ends with 'Limited' or 'Private Limited'.
(D) To confirm the location of the company's registered office.

Ans :

(A) To check that the business for which the loan is sought is within the company's objects clause.
The MoA defines the permissible range of a company's business activities through its objects clause. Any act done by the company beyond these objects is 'ultra vires' (beyond its powers) and void. A loan granted for a purpose outside the MoA's objects would be irrecoverable. Therefore, a banker must examine the MoA to ensure the borrowing is for a legitimate, authorized purpose.

Oct/Nov 2007

31. Under the Companies Act, 2013, before a company with share capital can commence business or exercise borrowing powers, a director must file a declaration stating that:
(A) The company has appointed a statutory auditor.
(B) The first board meeting has been successfully conducted.
(C) The company's name has been approved by the Regional Director.
(D) Every subscriber to the MoA has paid for the shares agreed to be taken.

Ans :

(D) Every subscriber to the MoA has paid for the shares agreed to be taken.
A company having a share capital cannot commence business or use its borrowing

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powers until two conditions are met. First, a director must file a declaration (within 180 days of incorporation) that every subscriber to the Memorandum of Association has paid the value of shares they agreed to take. Second, the company must have filed a verification of its registered office.

May/June 2016

32. State Bank of India, established under the State Bank of India Act, 1955, is an example of which type of entity?
(A) Government Company
(B) Statutory Corporation
(C) Public Limited Company
(D) Limited Liability Partnership

Ans :

(B) Statutory Corporation
A Statutory Corporation is an entity created and governed by a specific Act of Parliament. State Bank of India was established by the State Bank of India Act, 1955, and nationalized banks were established under the Banking Companies (Acquisition and Transfer of Undertakings) Acts. These are distinct from companies registered under the Companies Act.

Oct/Nov 2019

33. Match the type of trust in List-I with its corresponding governing law in List-II.

	List-I (Type of Trust)		List-II (Governing Law)
P.	Private Trust	1.	Wakf Act
Q.	Public Trust	2.	Indian Trusts Act, 1882
R.	Muslim Trust	3.	Public Trusts Act
S.	Hindu Trust	4.	Religious and Charitable Endowments Act

(A) P-2, Q-3, R-1, S-4
(B) P-3, Q-2, R-4, S-1
(C) P-1, Q-4, R-2, S-3
(D) P-2, Q-1, R-3, S-4

Ans :

(A) P-2, Q-3, R-1, S-4
The governance of trusts depends on their nature. Private trusts are governed by the Indian Trusts Act, 1882. Public trusts are generally governed by the respective state's Public Trusts Act. Trusts of Hindus are governed by the Religious and Charitable Endowments Act, and trusts of Muslims are governed by the Wakf Act.

May/June 2009

34. Under the Limited Liability Partnership Act, 2008, what is the minimum number of designated partners required for an LLP, and what is the residency requirement for at least one of them?
(A) Three designated partners, all of whom must be resident in India.
(B) Two designated partners, with no residency requirement.
(C) One designated partner, who must be resident in India.
(D) Two designated partners, one of whom must be resident in India.

Ans :

(D) Two designated partners, one of whom must be resident in India.
The Limited Liability Partnership Act, 2008, mandates that every LLP must have at least two partners. Furthermore, it must have at least two designated partners who are individuals. A crucial requirement is that at least one of these designated partners must be a resident in India, ensuring a point of contact and accountability within the country.

Oct/Nov 2024

35. Which of the following statements about a Limited Liability Partnership (LLP) is incorrect?
(A) A partner is personally liable for the unauthorized actions of other partners.
(B) An LLP has perpetual succession and is a separate legal entity.
(C) The liability of the partners is limited to their agreed contribution.
(D) An LLP can acquire, own, and dispose of property in its own name.

Ans :

(A) A partner is personally liable for the unauthorized actions of other partners.
A key advantage of the LLP structure is the protection it offers to individual partners. A partner is not liable on account of the independent or unauthorized actions of other partners. This insulates innocent partners from the wrongful acts or negligence of another partner. The liability

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CHAPTER 23

Appraisal and Assesement of Credit Facilities

May/June 2011

1. According to the fundamental principles of credit appraisal, which of the following is considered the primary objective for a lender?
   (A) Maximizing the loan portfolio size to achieve rapid growth and increase market share
   (B) Ensuring the safety and liquidity of funds lent, and the profitability from the credit extended
   (C) Fostering long-term relationships with borrowers, prioritizing customer retention over financial risk
   (D) Strictly adhering to all regulatory compliance mandates, regardless of the individual project's viability

   Ans :

   (B) Ensuring the safety and liquidity of funds lent, and the profitability from the credit extended
   The primary objective of credit evaluation is to ensure the safety and liquidity of the funds that are lent to the borrower. Additionally, the lender aims to achieve profitability from the credit facility being provided. This involves a critical evaluation of the loan request to ascertain that the credit will remain a performing asset for the bank.

Oct/Nov 2025

2. The modern approach to credit appraisal has shifted its emphasis from a subjective evaluation of credit quality to which of the following?
   (A) An appraisal of the inherent risk in the proposal and its acceptability against the lender's risk appetite
   (B) A focus solely on the valuation and marketability of collateral provided by the borrower
   (C) A judgmental process based primarily on the promoter's reputation, market reports, and personal connections
   (D) A simplified, template-based process that prioritizes rapid credit delivery over detailed, individualized risk analysis

   Ans :

   (A) An appraisal of the inherent risk in the proposal and its acceptability against the lender's risk appetite
   Credit appraisal has evolved from a subjective, judgment-based process to a more objective one. The modern emphasis is on appraising the risk inherent in a credit proposal. The decision to sanction or reject is based on whether the assessed risk level is acceptable given the lender's pre-defined risk appetite, making the process more a "credit risk appraisal".

May/June 2005

3. Which of the following is NOT one of the six steps mentioned in the credit appraisal process?
   (A) Borrower identification and verification
   (B) Assessing the business of the borrower
   (C) Finalising the interest rate negotiation
   (D) Selecting the appropriate exposure/scheme

   Ans :

   (C) Finalising the interest rate negotiation
   The credit appraisal process involves a sequence of steps: borrower identification, assessing the borrower's business, understanding credit requirements, conducting a due diligence report, selecting the appropriate scheme, and finalising the terms and conditions. While interest rate is part of the terms, its negotiation is not listed as a distinct primary step in the process outline.

Oct/Nov 2014

4. What is the main objective of conducting a field verification during the validation of a credit proposal?
   (A) To solely verify the residential address of the applicant for future communication and legal notices

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May/June 2023

41. Assertion (A): Higher levels of working capital generally decrease a firm's profitability.
Reason (R): Current assets are typically less profitable than fixed assets.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
A higher level of working capital implies a greater proportion of funds is tied up in current assets like cash and inventory, which generate lower returns compared to fixed assets used in production. This principle assumes that current assets are less profitable than fixed assets. Therefore, an increased investment in less profitable current assets leads to a decline in the firm's overall profitability.

Oct/Nov 2006

42. A business enterprise requires funds for the acquisition of fixed assets like machinery, expansion of its factory building, and modernization of its plant. These needs are typically met through:
(A) Cash credit facilities
(B) Overdraft facilities
(C) Bill discounting
(D) Long Term Funds

Ans :

(D) Long Term Funds
The acquisition of long-term assets such as land, buildings, and machinery, or for purposes like expansion and modernization, requires financing that matches the life of those assets. These are funded through long-term sources, primarily capital and term loans. Working capital facilities like cash credit are meant for short-term operational needs, not capital expenditure.

Oct/Nov 2016

43. Consider the following statements regarding the differences between Term Loans and Working Capital Facilities:
1. Term loans are typically of medium to long-term duration, while working capital facilities are granted for a one-year duration and are renewable.
2. Working capital finance is a running account with frequent drawings and credits, whereas term loans are disbursed in one or a few tranches with no further disbursements.
3. Term loans are repaid from the sale of current assets, while working capital finance is repaid from the surpluses generated by the business over time.

Which of the statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(A) 1 and 2 only
Statements 1 and 2 correctly describe the differences. Term loans have a longer tenure and a structured disbursement/repayment schedule. Working capital facilities are short-term, renewable, and operate as running accounts. Statement 3 is incorrect; term loans are repaid from surpluses (profits) generated over time, while working capital finance is self-liquidating through the conversion of current assets (like inventory and receivables) into cash.

May/June 2010

44. In a cash credit or overdraft facility, the 'drawing power' determines the amount a customer can withdraw. This drawing power is primarily calculated based on:
(A) The total sanctioned limit of the facility as approved by the bank.
(B) The audited sales turnover of the company from the previous financial year.
(C) The appraised value of fixed assets that have been pledged as collateral security.
(D) The market value of current assets less a prescribed margin.

Ans :

(D) The market value of current assets less a prescribed margin.
A key feature of cash credit and overdraft facilities is that the amount available for withdrawal is regulated by the drawing power. This is calculated periodically based on the value of the borrower's current assets, such as stock of raw materials, work-in-process, finished goods, and receivables.

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A prescribed margin is deducted from this value to arrive at the drawing power.

Oct/Nov 2021

45. A customer's account is overdrawn without a formal written agreement. When the bank demands repayment with interest, the customer refuses to pay the interest, arguing there was no contract. The bank files a suit. Based on the judgment in Bank of Maharashtra vs United Construction Co. & Others, what would be the likely outcome?

(A) The court would hold that an implied contract for overdraft exists and direct the borrower to pay with interest.
(B) The court would rule in favor of the customer as there was no express contract.
(C) The court would direct the borrower to repay the principal only, waiving the interest.
(D) The court would dismiss the suit as the overdraft was unauthorized.

Ans :

(A) The court would hold that an implied contract for overdraft exists and direct the borrower to pay with interest.
The case of Bank of Maharashtra vs United Construction Co. & Others established that an express written contract is not necessary for an overdraft. When a bank honors cheques that result in an overdraft, an implied contract to repay the overdrawn amount with interest is created. Therefore, the bank is legally entitled to recover the principal along with interest.

May/June 2014

46. The 'Rule in Clayton's Case' states that in a running account, credits are appropriated towards:

(A) The most recent debits.
(B) The earliest debits in chronological order.
(C) The largest debit items first.
(D) Debits chosen at the bank's discretion.

Ans :

(B) The earliest debits in chronological order.
The Rule in Clayton's Case, a legal principle of appropriation of payments, dictates that for a running account, the first sum paid in (credited) is deemed to repay the first sum drawn out (debited). In other words, payments are applied to discharge the debts in the order they were incurred. Bankers often contract out of this rule to avoid legal complications.

Oct/Nov 2005

47. A firm enjoyed a temporary overdraft facility for four years without any formal documentation. The bank unilaterally terminated the facility without notice, leading to the dishonor of a cheque. The firm sued for damages. Based on the judgment in M/s Narain Prasad Govindlal Patel vs Indian Overseas Bank, is the bank's action justified?

(A) Yes, because the facility was explicitly termed "temporary" and could therefore be withdrawn at the bank's will.
(B) No, because even a temporary facility, if long-standing, cannot be terminated without reasonable notice.
(C) Yes, because the absence of a formal written contract or any pledged security justified immediate termination.
(D) No, the bank's action was unjustified, but its liability is limited to issuing a formal apology, not paying damages.

Ans :

(B) No, because even a temporary facility, if long-standing, cannot be terminated without reasonable notice.
The Gujarat High Court held that an overdraft facility, even if termed temporary, represents a contract that cannot be cancelled unilaterally without notice. The continuous enjoyment of the facility over a period implies a settled arrangement. The bank has a duty to provide reasonable notice to the constituent before terminating such a facility to avoid causing undue harm.

May/June 2025

48. In which method of bill finance are usance bills drawn by a borrower on a buyer discounted by the bank, with the discount amount representing interest for the credit period?

(A) Bill Discounting.
(B) Bill Purchase
(C) Advance against Bills for Collection
(D) Drawee Bill Acceptance

Ans :

(A) Bill Discounting.
Bill discounting is a method of financing receivables where the bank purchases a usance

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(time-based) bill of exchange before its due date. The bank pays the borrower the face value of the bill less a discount. This discount is essentially the interest charged by the bank for the period until the bill's maturity, providing immediate funds to the seller.

Oct/Nov 2012

49. Which of the following bill finance facilities is a non-fund based facility that acts as a guarantee for a seller?
(A) Bill Purchase
(B) Bill Discounting
(C) Bills Co-acceptance
(D) Drawee Bill Acceptance

Ans :

(C) Bills Co-acceptance
Bills co-acceptance is a non-fund based facility. In this arrangement, the bank adds its co-acceptance to a bill already accepted by the borrower (buyer). This enhances the bill's creditworthiness, effectively acting as a bank guarantee for the seller. The seller can then hold the bill until maturity or get it discounted from another bank more easily.

May/June 2008

50. Term loans repayable within a period of above one year and up to and inclusive of 5 years are generally classified as:
(A) Medium-term Loans
(B) Short-term Loans
(C) Long-term Loans
(D) Bridge Loans

Ans :

(A) Medium-term Loans
Term loans are classified based on their repayment tenor. While the ranges are indicative, loans repayable within one year are typically considered short-term. Loans with a repayment period of more than one year but up to five years are generally classified as medium-term loans. Loans with a tenor exceeding five years are categorized as long-term loans.

Oct/Nov 2023

51. A borrower defaults on the third installment of a term loan. The loan agreement contains an acceleration clause. Based on the ruling in P.K. Achuthan vs State Bank of Travancore, what is the bank entitled to demand?
(A) Only the overdue third installment plus any applicable late payment fees.
(B) The next three installments to be paid in advance to secure the loan.
(C) A penalty equal to double the amount of the defaulted installment.
(D) The entire outstanding loan amount, including future installments, in one lump sum.

Ans :

(D) The entire outstanding loan amount, including future installments, in one lump sum.
The case of P.K. Achuthan vs State Bank of Travancore affirmed the legality of the acceleration clause. This clause stipulates that if a borrower defaults on any single installment, the entire remaining balance of the loan, including all future installments, becomes immediately due and payable. The lender is entitled to recover the whole sum.

May/June 2019

52. What is the limitation period for filing a suit to recover a defaulted specific installment of a term loan?
(A) One year from the date of default.
(B) Three years from the date of default.
(C) Five years from the date of the loan agreement.
(D) Three years from the due date of the last installment.

Ans :

(B) Three years from the date of default.
For a term loan with repayment in installments, the limitation period to file a recovery suit for a specific defaulted installment is three years, starting from the date of that particular default. If the bank waits until the end of the loan term to sue for the whole amount, it may lose its right against earlier installments where the three-year limit has expired.

Oct/Nov 2014

53. According to Section 126 of The Indian Contract Act, 1872, the person who gives a guarantee is called the 'surety'. In a bank guarantee issued by Bank X on behalf of its customer, Company Y, in favor of a government department, who is the 'surety'?
(A) Company Y
(B) The government department

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(C) Bank X
(D) The directors of Company Y

Ans :

(C) Bank X
Applying the definitions from Section 126, the bank that issues the guarantee is undertaking to discharge the liability of its customer. Therefore, Bank X is the one giving the guarantee and is the 'surety'. The customer, Company Y, is the 'principal debtor' whose default is covered. The government department, to whom the guarantee is given, is the 'creditor'.

May/June 2006

54. A bank guarantee provided by a supplier to a buyer, which can be invoked if the supplier fails to complete the contract satisfactorily, is known as a:
(A) Financial Guarantee
(B) Deferred Payment Guarantee
(C) Bid Bond Guarantee
(D) Performance Guarantee

Ans :

(D) Performance Guarantee
A performance guarantee is an assurance provided by a bank to a buyer (or project owner) on behalf of a supplier (or contractor). It ensures satisfactory completion of the contract as per its terms. If the supplier defaults or fails to perform, the buyer can invoke the guarantee to get compensated for the resulting financial losses.

Oct/Nov 2017

55. The set of rules framed by the International Chamber of Commerce (ICC) that banks generally follow for documentary credit operations is known as:
(A) UCPDC 600
(B) INCOTERMS 2020
(C) SWIFT Guidelines
(D) Basel III Accord

Ans :

(A) UCPDC 600
UCPDC 600, which stands for the Uniform Customs and Practice for Documentary Credits, Publication 600, is a set of rules issued by the International Chamber of Commerce (ICC). It is the globally accepted standard that governs the rights and obligations of parties involved in letter of credit (documentary credit) transactions, providing uniformity and predictability.

May/June 2022

56. In addition to traditional facilities, banks are increasingly offering products to clients to help them manage currency and interest rate risks. These products, which carry financial exposure and are a form of non-fund based credit support, are known as:
(A) Mutual Funds
(B) Derivative Products
(C) Insurance Policies
(D) Equity Shares

Ans :

(B) Derivative Products
Derivative products, such as currency forwards, options, and interest rate swaps, are financial instruments offered by banks to help clients hedge against risks from fluctuations in currency exchange rates and interest rates. Although they don't involve an initial fund outflow, they create a credit exposure for the bank on the customer, classifying them as a non-fund based facility.

Oct/Nov 2009

57. The type of lending that caters to the personal financial needs of individuals, such as for housing, education, or consumer durables, and has become a significant contributor to bank profitability is broadly termed as:
(A) Corporate Banking
(B) Wholesale Banking
(C) Consumer Credit or Retail Asset business
(D) Treasury Operations

Ans :

(C) Consumer Credit or Retail Asset business
Lending to individuals for their diverse personal needs—including one-time loans for cars or housing, and revolving credit like credit cards—is collectively known as Consumer Credit or Retail Asset business. This segment is characterized by a large number of small-value loans and has grown to become a very popular and profitable area for modern banks.

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May/June 2011

58. Consider the following statements:
Statement I: Gross Working Capital means the total working fund requirements of an enterprise, funded by various sources including

bank finance.
Statement II: Net Working Capital means the excess of total Current Liabilities over total Current Assets.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct and Statement II is incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(C) Statement I is correct and Statement II is incorrect.
Statement I is correct; Gross Working Capital refers to the total investment in current assets. Statement II is incorrect; Net Working Capital is defined as the excess of total Current Assets over total Current Liabilities (NWC = CA - CL). It represents the portion of current assets financed through long-term sources, indicating a company's liquidity position.

Oct/Nov 2020

59. Consider the following list of Bill Finance methods:
i. Bill discounting
ii. Bills purchase
iii. Advance against Bills for Collection
iv. Drawee bill acceptance
v. Bills co-acceptance
Which of these is classified as a non-fund based facility?
(A) (i) only
(B) (iv) only
(C) (v) only
(D) Both (iv) and (v)

Ans :

(C) (v) only
The first four methods listed are fund-based facilities, where the bank extends finance against the bills. The last one, 'Bills co-acceptance', is a non-fund based facility. In co-acceptance, the bank adds its name to the bill, providing a guarantee rather than immediate funds, thus enhancing its creditworthiness for the seller.

May/June 2015

60. Consider the following statements regarding a company's incorporation and initial operations:
1. The Memorandum of Association (MoA) is subordinate to the Articles of Association (AoA).
2. The name of a public company must end with the word 'limited'.
3. The use of a common seal is now optional for a company.
4. A company comes into legal existence from the date of commencement of business.
Which of the above statements are correct?
(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2, and 3 only
(D) 2, 3, and 4 only

Ans :

(B) 2 and 3 only
Statement 1 is incorrect; the AoA is subordinate to the MoA. Statement 2 is correct. Statement 3 is also correct as the Companies Act, 2013 made the common seal optional. Statement 4 is incorrect; a company comes into existence from the date of incorporation mentioned in the Certificate of Incorporation (CoI), not the date of business commencement.

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of the LLP itself, as a separate entity, remains for all its obligations.

May/June 2017

36. An LLP is defined as a 'Small Limited Liability Partnership' if its contribution does not exceed ₹25,00,000 and its turnover in the preceding financial year does not exceed:
(A) ₹10,00,000
(B) ₹40,00,000
(C) ₹1,00,00,000
(D) ₹2,00,00,000

Ans :

(B) ₹40,00,000
A 'Small Limited Liability Partnership' is defined based on dual criteria. First, the total contribution from its partners must not exceed ₹25,00,000. Second, its turnover for the immediately preceding financial year must not exceed ₹40,00,000. LLPs meeting these conditions may have certain compliance relaxations, similar to small companies under the Companies Act.

Oct/Nov 2015

37. Credit facilities provided by banks are broadly classified into two types based on the outflow of funds. What are these two types?
(A) Retail and Commercial facilities
(B) Secured and Unsecured facilities
(C) Fund-based and Non-fund based facilities
(D) Short-term and Long-term facilities

Ans :

(C) Fund-based and Non-fund based facilities
The primary classification of credit facilities is based on whether they involve an actual outflow of the bank's money. Fund-based facilities, like cash credits and term loans, involve direct lending. Non-fund based facilities, such as bank guarantees and letters of credit, are contingent liabilities where the bank undertakes a payment obligation on behalf of the customer.

May/June 2013

38. Which of the following is an example of a non-fund based credit facility?
(A) Letter of Credit
(B) Cash Credit
(C) Term Loan
(D) Bill Discounting

Ans :

(A) Letter of Credit
A Letter of Credit is a non-fund based facility. In this arrangement, the bank does not lend money directly but provides an undertaking to pay the seller (beneficiary) on behalf of the buyer (applicant) upon presentation of specified documents. An actual outflow of funds only occurs if the buyer defaults, making it a contingent liability for the bank.

Oct/Nov 2008

39. The requirement of money by a manufacturing enterprise for its day-to-day operational needs, such as purchasing raw materials and paying wages, is known as:
(A) Capital Expenditure
(B) Fixed Capital
(C) Working Capital
(D) Seed Capital

Ans :

(C) Working Capital
Working capital refers to the funds required by an enterprise to finance its day-to-day operations. This includes expenses like the purchase of raw materials, stores, and spares; payment of wages and salaries; and other costs related to production, administration, and sales. It is the capital that 'works' or circulates within the business's operating cycle.

May/June 2020

40. What does 'Net Working Capital' represent in a firm's financial structure?
(A) The excess of total current assets over total current liabilities.
(B) The total of all current assets of the firm.
(C) The total of all current liabilities of the firm.
(D) The funds used exclusively for purchasing fixed assets.

Ans :

(A) The excess of total current assets over total current liabilities.
Net Working Capital (NWC) is a measure of a company's liquidity and operational efficiency. It is calculated as the total of current assets minus the total of current liabilities. It also represents the portion of a firm's current assets that is financed by long-term funds, such as owned funds and term loans, providing a buffer for short-term obligations.

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(B) To assess the applicant's social standing and personal character through informal neighbourhood inquiries
(C) To collect additional supporting financial documents that were not submitted with the initial application
(D) To verify the status and level of the applicant's business activities and assess management quality

Ans :

(D) To verify the status and level of the applicant's business activities and assess management quality
A field verification, which involves visiting the factory or office of the applicant, serves a dual purpose. Its primary objective is to confirm the nature and scale of the applicant's business activities. It also provides an opportunity for the lender to gain insights into the management skills of the applicant or the overall quality of the enterprise's management.

May/June 2023

5. In the context of credit risk, which of the following would be considered an internal factor that could trigger a default event?
(A) A sudden downturn in the global economy affecting the borrower's entire industry sector
(B) The introduction of a new, adverse government regulation that impacts the business's cost structure
(C) Inefficient management and poor financial decisions within the borrowing firm
(D) Increased and aggressive competition from new, well-funded entrants in the market

Ans :

(C) Inefficient management and poor financial decisions within the borrowing firm
A default event can be caused by internal, external, or a combination of factors. Internal factors are those originating within the borrowing firm itself. These include issues such as inefficient management, suboptimal financial decisions, marketing failures, poor cash flow management, and bad collections, which the lender assesses to gauge the quality of management and operations.

NODIA

Oct/Nov 2008

6. A credit risk rating model is a tool used in credit appraisal. What is its primary function?
(A) It automatically sanctions or rejects a loan proposal using a rigid algorithm without human intervention
(B) It assigns grades or marks to various risk components to arrive at an overall credit risk score for the borrower
(C) It exclusively focuses on the liquidation value of collateral and ignores the borrower's financial performance history
(D) It determines the final interest rate to be charged on the loan based on prevailing market conditions and bank policy

Ans :

(B) It assigns grades or marks to various risk components to arrive at an overall credit risk score for the borrower
Credit risk rating is a key credit appraisal tool where risk is assessed by assigning marks or grades to different pre-defined parameters. Each risk component is given a weight based on its importance. This systematic scoring includes financial performance as well as qualitative factors like management quality, ultimately generating a credit risk score for decision-making.

May/June 2017

7. According to the criteria for decision-making in credit appraisal, a proposal will be rejected if it fails any one of three specified tests. Which of the following is NOT one of those tests?
(A) The purpose of the loan fits with the bank's credit policy
(B) The proposed activity is not on the bank's banned or restricted list
(C) The sanction does not breach the bank's concentration limits for group or industry exposure
(D) The credit rating score is above the bank's stipulated cut-off point

Ans :

(D) The credit rating score is above the bank's stipulated cut-off point
A proposal is rejected if the credit rating score is below the cut-off point, not above it. The other two tests are that the loan's purpose must align with bank policy and not be for a restricted activity, and the sanction must not violate any

A Bid Bond Guarantee, also known as an earnest money guarantee, is submitted by a contractor along with a tender or bid for a project. It provides an assurance to the project owner that the bidder will take up the contract if it is awarded to them, as per the terms of the bid.

Oct/Nov 2017

42. Refer to the Bank Guarantee requirement calculation for PQR Ltd. The company plans to bid for 5 tenders with an aggregate value of ₹10,000 lakh. The government departments require a Bid Bond equivalent to 1% of the tender value. What is the assessed amount for fresh Bid Bond Guarantees?
(A) ₹100 lakh
(B) ₹10 lakh
(C) ₹1,000 lakh
(D) ₹200 lakh

Ans :

(A) ₹100 lakh
The assessment for the Bid Bond Guarantee is based on the aggregate value of the tenders the company plans to bid for and the required percentage. The aggregate tender value is ₹10,000 lakh, and the required guarantee is 1% of this value. Therefore, the amount required is calculated as 10,000 × 1% 100.00 lakh.

May/June 2011

43. PQR Ltd. has completed 2 projects with an aggregate value of ₹2,500 lakh. The retention amount held by the government departments is 5% of the contract value. To get this money released, PQR Ltd. needs to provide a Retention Money Guarantee. What will be the value of this guarantee?
(A) ₹500 lakh
(B) ₹250 lakh
(C) ₹100 lakh
(D) ₹125 lakh

Ans :

(D) ₹125 lakh
The Retention Money Guarantee is required for the release of funds held back by the client after project completion. The value of this guarantee corresponds to the retention amount. The calculation is 5% of the aggregate project value of ₹2,500 lakh. Therefore, the guarantee amount is ₹2,500 lakh × 5% = ₹125 lakh.

Oct/Nov 2025

44. What is the primary function of a Letter of Credit (L/C) in a trade transaction?
(A) It is a long-term loan provided to the buyer for the purpose of purchasing goods or services
(B) It is a conditional undertaking by a bank on behalf of a buyer to pay a seller upon presentation of conforming documents
(C) It is a guarantee issued by a third-party inspector that the goods being sold are of the highest quality
(D) It is a performance bond issued by the seller to the buyer to guarantee timely shipment of goods

Ans :

(B) It is a conditional undertaking by a bank on behalf of a buyer to pay a seller upon presentation of conforming documents
A Letter of Credit is an instrument issued by a bank (issuing bank) on behalf of its customer (the buyer or applicant). It represents the bank's conditional promise to pay the seller (beneficiary) a stated amount, provided the seller presents specified documents that strictly comply with the terms and conditions set out in the L/C.

May/June 2005

45. A company requires an L/C limit for raw material purchases. The projected credit purchase value is ₹2,400 lakh for the year. The L/C cycle time (advising, shipment, and credit period) is 60 days. Assuming a 360-day year, what is the required L/C limit?
(A) ₹200 lakh
(B) ₹600 lakh
(C) ₹400 lakh
(D) ₹2,400 lakh

Ans :

(C) ₹400 lakh
First, determine the number of L/C cycles in a year: 360 days/60 days per cycle = 6 cycles. The required L/C limit is the total projected credit purchase amount distributed over the number of cycles. Therefore, the limit is ₹2,400 lakh/6 cycles = ₹400 lakh. This represents the amount that would be outstanding at any point in time.

Oct/Nov 2014

46. In contrast to working capital finance, the repayment of a term loan is primarily sourced from what?

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security when the business has failed to generate sufficient cash flows for repayment.

Oct/Nov 2013

12. Assertion (A): Lenders prefer that loan repayment comes from the cash flow generated from the borrower's primary business activity.
Reason (R): Repayment through the sale of assets can weaken the business's capacity, and repayment through fresh borrowing increases the firm's financial leverage and risk.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
(C) (A) is true but (R) is false
(D) (A) is false but (R) is true

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
Lenders ideally want repayments to be sourced from operational profits. The reason for this preference is that other sources have significant drawbacks. Selling assets can diminish the firm's productive capacity, while taking on new debt to repay old debt increases leverage and financial risk, making future cash generation more difficult and exposing the bank to greater risk.

May/June 2018

13. Which of the following statements correctly distinguishes between commercial loans and retail loans in terms of their assessment and handling by banks?
(A) Retail loans require specialised assessment skills and are handled by central teams, whereas commercial loans are standardised and technology-driven for branch-level processing
(B) Commercial loans are typically standardised with small ticket sizes and are therefore handled at the branch level using automated platforms
(C) Commercial loans require specialised skills for assessment and are often handled by specialised teams, while retail loans are largely standardised and technology-driven
(D) Both commercial and retail loans are assessed using the exact same credit appraisal methodology and are processed on identical technology platforms

Ans :

(C) Commercial loans require specialised skills for assessment and are often handled by specialised teams, while retail loans are largely standardised and technology-driven
Commercial loans, including project finance, involve complex assessments and monitoring, requiring specialised skills. They are usually managed by dedicated teams or branches. In contrast, retail loans, with their large volume and smaller ticket sizes, have been highly standardised by banks in terms of application, documentation, and processing, making them substantially technology-driven for efficiency and scale.

Oct/Nov 2007

14. In the context of business finance, what does the term 'Working Capital' refer to?
(A) Funds required for the acquisition of long-term fixed assets such as land, buildings, and heavy machinery
(B) The total equity capital invested in the business by the owners, representing their stake in the firm
(C) The accumulated profit retained in the business at the end of a financial year after all taxes and dividends are paid
(D) Funds required for financing short-term or current assets like inventories, debtors, and cash for day-to-day operations

Ans :

(D) Funds required for financing short-term or current assets like inventories, debtors, and cash for day-to-day operations
Working capital, also known as operating or short-term capital, represents the funds a firm needs for its continuous day-to-day operations. It is used to finance current assets such as inventories (raw materials, work-in-progress, finished goods) and debtors, and to cover daily expenses like wages and material purchases, ensuring the smooth functioning of the production cycle.

May/June 2024

15. Identify the correct statement regarding the concepts of Gross Working Capital (GWC) and Net Working Capital (NWC).
(A) GWC is the total capital invested in all current assets, while NWC is the excess of current assets over current liabilities

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(B) GWC is primarily an accounting concept, while NWC is a financial or going concern concept used for asset valuation
(C) GWC represents the difference between current assets and current liabilities, while NWC is the total investment in all current assets
(D) GWC and NWC are identical concepts used interchangeably to represent the firm's total requirement for short-term funds

Ans :

(A) GWC is the total capital invested in all current assets, while NWC is the excess of current assets over current liabilities
Gross Working Capital (GWC) is a financial or going concern concept representing the total investment in all current assets of the enterprise. In contrast, Net Working Capital (NWC) is an accounting concept defined as the difference between total current assets and total current liabilities, indicating the portion of current assets financed by long-term funds.

Oct/Nov 2021

16. What is the 'Working Capital Gap' as the term is used in the Indian banking sector?
(A) The total value of all current assets held by a firm at a specific point in time
(B) The difference between total Current Assets and Current Liabilities, other than bank borrowings
(C) The difference between total Current Assets and total Current Liabilities, including all bank borrowings
(D) The total amount of bank borrowings that have been sanctioned to a firm for its operations

Ans :

(B) The difference between total Current Assets and Current Liabilities, other than bank borrowings
The Working Capital Gap is a specific concept used by Indian banks to determine the amount of working capital limit to be provided. It is calculated by taking the total Current Assets and subtracting all Current Liabilities except for bank borrowings. This gap represents the portion of current assets that needs to be financed by the borrower's margin and bank credit.

May/June 2015

17. Which of the following is NOT considered a primary component of working capital?
(A) Raw material and stock in process
(B) Long-term debentures and share capital
(C) Finished goods in stores and in transit
(D) Receivables or sundry debtors

Ans :

(B) Long-term debentures and share capital
The components of working capital are current assets and current liabilities that circulate within the operating cycle. These include raw materials, stock-in-process, finished goods, consumable stores, sundry debtors, and other operational expenses. Long-term debentures and share capital are sources of long-term finance used for funding fixed assets and a portion of working capital (NWC), not components themselves.

Oct/Nov 2016

18. The operating cycle of a manufacturing business represents a sequence of events. Which of the following illustrates the correct sequence?
(A) Cash → Raw Material → Work-in-Process → Finished Goods → Debtors → Cash
(B) Cash → Debtors → Finished Goods → Work-in-Process → Raw Material → Cash
(C) Raw Material → Debtors → Work-in-Process → Finished Goods → Cash
(D) Finished Goods → Work-in-Process → Debtors → Raw Material → Cash

Ans :

(A) Cash → Raw Material → Work-in-Process → Finished Goods → Debtors → Cash
The operating cycle depicts the flow of funds in a business. It starts with cash, which is used to purchase raw materials. These materials are converted into work-in-process and then into finished goods. The finished goods are sold, creating debtors (receivables). Finally, cash is realized from these debtors, completing the cycle and making funds available again.

May/June 2009

19. Refer to the provided formulas for computing operating cycle components.
Component: Raw Material (RM) Storage Period
Computation: $\frac{\text{Average Stock of RM}}{\text{Average Daily RM Consumption}}$
Where, Average Daily RM Consumption is : $\frac{\text{Annual Consumptionof RM}}{360}$

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How is the 'Average Stock of RM' calculated for this formula?

(A) It is the Closing Stock of RM at the end of the year.
(B) It is the Opening Stock of RM at the beginning of the year.
(C) It is the average of the Opening Stock of RM and the Closing Stock of RM.
(D) It is the sum of Opening Stock of RM and Closing Stock of RM.

Ans :

(C) It is the average of the Opening Stock of RM and the Closing Stock of RM.
For calculating the Raw Material Storage Period, the numerator is the 'Average Stock of RM'. This average figure is computed to smooth out fluctuations in stock levels throughout the year. The standard method for this calculation is to take the sum of the opening stock and the closing stock of raw material and divide it by two.

Oct/Nov 2011

20. In computing the 'Annual Cost of Sales (CoS)' for the Finished Goods Storage Period calculation, which of the following components is subtracted from the sum of other costs?

(A) Opening stock of Finished Goods
(B) Annual Cost of Production
(C) Selling & Distribution Costs
(D) Closing stock of Finished Goods

Ans :

(D) Closing stock of Finished Goods
The formula for Annual Cost of Sales is: Opening stock of FG + Annual Cost of Production + Excise Duty + Selling & Distribution Costs + General Administrative Costs + Finance Costs - Closing stock of FG. The value of goods produced but not sold during the period (Closing Stock) is deducted to arrive at the cost of goods actually sold.

May/June 2020

21. Banks have the freedom to adopt various methods for assessing working capital requirements. Which of the following is NOT one of the four listed methods?

(A) Turnover Method
(B) Maximum Permissible Bank Finance (MPBF) Method
(C) Debt Service Coverage Ratio (DSCR) Method
(D) Cash Budget Method

Ans :

(C) Debt Service Coverage Ratio (DSCR) Method
Banks typically adopt one of four methods for assessing fund-based working capital needs: the Turnover Method, the Operating Cycle Method, the Maximum Permissible Bank Finance (MPBF) Method, and the Cash Budget Method. The Debt Service Coverage Ratio (DSCR) is a parameter used for assessing the viability and repayment capacity for term loans, not for assessing working capital requirements.

Oct/Nov 2005

22. M/s. ABC, a manufacturer of household goods, had a turnover of ₹80.00 lakh in FY2021-22 and targets a 25% growth for FY2022-23. The bank uses the Turnover Method for assessment. What is the estimated working capital requirement for FY2022-23?

(A) ₹20.00 lakh
(B) ₹25.00 lakh
(C) ₹100.00 lakh
(D) ₹80.00 lakh

Ans :

(B) ₹25.00 lakh
First, calculate the projected turnover for FY2022-23. Growth is. 80lakh × 25% = 20lakh The projected turnover is.80lakh + 20lakh = 100lakh Under the Turnover Method, the working capital requirement is computed as 25% of the projected annual turnover. Therefore, the requirement is 100lakh × 25% = 25lakh .

May/June 2012

23. Under the Turnover Method of working capital finance, what is the standard contribution expected from the borrower as margin money?

(A) 25% of the projected annual turnover
(B) 20% of the total working capital requirement
(C) 80% of the total working capital requirement
(D) 5% of the projected annual turnover

Ans :

(D) 5% of the projected annual turnover
The Turnover Method stipulates that the total working capital requirement is 25% of the projected turnover. Of this, the bank finances four-fifths, which is 20% of the projected turnover. The borrower is required to contribute the balance one-fifth as margin, which equates to

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May/June 2019

33. What is the primary purpose of FORM VI (Funds Flow Statement) in the CMA data analysis?

(A) To calculate the Maximum Permissible Bank Finance (MPBF) for the borrower

(B) To understand how short and long-term funds are utilized and to identify any diversion of short-term funds for long-term purposes

(C) To project the monthly cash surplus or deficit for the upcoming financial year

(D) To provide a comparative statement of current assets and current liabilities over multiple years

Ans :

(B) To understand how short and long-term funds are utilized and to identify any diversion of short-term funds for long-term purposes

FORM VI, the Funds Flow Statement, is crucial for understanding the movement of funds within a business over a period. It helps a banker analyze the sources and uses of long-term and short-term funds. A key aspect of its analysis is to check if short-term funds, like working capital finance, have been diverted for long-term uses like asset acquisition.

Oct/Nov 2006

34. The Cash Budget Method is recommended for assessing the working capital needs of which category of borrowers?

(A) Borrowers with fund-based limits in excess of ₹10 crore

(B) All Micro, Small, and Medium Enterprise (MSME) units, regardless of limit size

(C) Borrowers requiring fund-based limits up to ₹5 crore

(D) Only seasonal industries like sugar manufacturing or tourism operators

Ans :

(A) Borrowers with fund-based limits in excess of ₹10 crore

The Cash Budget Method is a more detailed and forward-looking assessment tool. Most banks adopt this system for assessing the working capital requirements of borrowers who enjoy or require fund-based limits exceeding ₹10 crore. This method requires a sophisticated MIS from the borrower and provides a more precise, time-sensitive view of funding needs.

May/June 2008

35. How does a cash budget primarily differ from a cash flow statement?

(A) A cash budget deals with both cash and non-cash items, while a cash flow statement deals only with cash transactions.

(B) A cash budget is prepared annually for strategic planning, while a cash flow statement is prepared monthly for operational review.

(C) A cash budget is a projection into the future, while a cash flow statement is typically historical in nature.

(D) There is no significant difference; the terms are used interchangeably in modern banking and accounting practices.

Ans :

(C) A cash budget is a projection into the future, while a cash flow statement is typically historical in nature.

A key distinction is their time orientation. A cash budget is a statement of projected cash receipts and payments for a future period (e.g., the next quarter or year). In contrast, a cash flow statement, as part of the financial statements, is usually historical, summarizing the cash flows that have already occurred over a past period.

Oct/Nov 2012

36. Under the Cash Budget Method of financing, how is the total working capital finance to be provided by the bank determined?

(A) It is set at a fixed percentage, such as 25%, of the projected annual sales.

(B) It is calculated as the simple average of the monthly cash deficits projected over the entire year.

(C) It is fixed at a certain percentage, such as 75%, of the total projected cash payments for the year.

(D) It is equal to the peak cash deficit amount ascertained from the Projected Cash Budget Statement.

Ans :

(D) It is equal to the peak cash deficit amount ascertained from the Projected Cash Budget Statement.

The Cash Budget Method focuses on the actual cash shortfalls a business is projected to face. The total working capital finance to be provided by

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contribution from the borrower strengthens the unit's liquidity position. The implementation of this method results in a minimum current ratio of 1.33:1, indicating a healthier financial state compared to the first method.

May/June 2022

29. Which of the three lending methods proposed by the Tandon Committee was not accepted for implementation and is now of only academic interest?
(A) First Method of Lending
(B) Second Method of Lending
(C) Third Method of Lending
(D) All three methods were implemented

Ans :

(C) Third Method of Lending
The Third Method of Lending proposed that the borrower's contribution from long-term funds should cover all core current assets plus a minimum of 25% of the remaining balance of current assets. This was the most stringent of the three methods. However, it was not accepted for implementation by the banking system and therefore remains of academic interest only.

Oct/Nov 2018

30. Based on the illustration comparing the First and Second Methods of Lending for MPBF, with Total Current Assets of ₹370 lakh and Other Current Liabilities of ₹150 lakh.
Statement 1: The Maximum Permissible Bank Finance (MPBF) is higher under the First Method than the Second Method.
Statement 2: The required borrower's contribution (margin) is higher under the Second Method than the First Method.
(A) Both Statement 1 and Statement 2 are correct.
(B) Both Statement 1 and Statement 2 are incorrect.
(C) Statement 1 is correct, but Statement 2 is incorrect.
(D) Statement 1 is incorrect, but Statement 2 is correct.

Ans :

(A) Both Statement 1 and Statement 2 are correct.
The Working Capital Gap (WCG) is ₹370 lakh - ₹150 lakh = ₹220 lakh. Under the First Method, MPBF is 75% of WCG, which is ₹165 lakh. Under the Second Method, the margin is 25% of Total CA (₹92.5 lakh), so MPBF is WCG - Margin, which is $220 - 92.5 = 127.5$ lakh. Thus, Statement 1 is correct. The margin for the First Method is 25% of WCG (₹55 lakh), while for the Second Method it is 25% of Total CA (₹92.5 lakh). Thus, Statement 2 is also correct.

May/June 2013

31. The Credit Monitoring Arrangement (CMA) data consists of several forms used for credit appraisal. Which form provides a breakup of the Profit & Loss Account, detailing items like gross sales, cost of production, and operating profit?
(A) FORM II
(B) FORM I
(C) FORM III
(D) FORM IV

Ans :

(A) FORM II
FORM II of the CMA data is the Operating Statement, which is essentially a detailed breakup of the Profit & Loss Account. It furnishes data on gross sales, net sales, costs of raw materials, power, labor, depreciation, interest, and other expenses. This form helps in analyzing profitability, trends, and the overall operational efficiency of the unit.

Oct/Nov 2015

32. While analyzing FORM III (Analysis of Balance Sheet) of the CMA data, what is the prescribed treatment for projected stock of imported spares exceeding 12 months' consumption?
(A) They are fully included as Current Assets (CA).
(B) They are treated as Non-Current Assets (NCA).
(C) They are deducted from the Net Worth of the company.
(D) They are treated as a Contingent Liability.

Ans :

(B) They are treated as Non-Current Assets (NCA).
FORM III analysis involves scrutinizing the classification of assets and liabilities. As per the guidelines, the level of projected stock of spares should not exceed certain norms. For imported spares, any stock projected beyond 12 months' consumption requirements is to be classified as a Non-Current Asset (NCA), effectively excluding it from the working capital assessment base.

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5% of the projected annual turnover (or 20% of the total working capital requirement).

Oct/Nov 2023

24. M/s. PQR, a toy manufacturer, has a projected annual turnover of ₹120.00 lakh and an available Net Working Capital (NWC) of ₹5.00 lakh. Using the Turnover Method, what is the amount of additional margin the borrower needs to bring in?
(A) ₹1.00 lakh
(B) ₹6.00 lakh
(C) ₹5.00 lakh
(D) ₹24.00 lakh

Ans :

(A) ₹1.00 lakh
The working capital required is 25% of ₹120.00 lakh, which is ₹30.00 lakh. The minimum margin to be contributed by the borrower is 20% of this requirement, i.e., 20% × ₹30.00lakh = ₹6.00 lakh. Since the actual available NWC is only ₹5.00 lakh, the borrower must bring in the shortfall of ₹6.00 lakh - ₹5.00 lakh= ₹1.00 lakh.

May/June 2021

25. Under the Operating Cycle Method for assessing working capital, what is the total operating cycle duration for a firm with the following holding periods: Raw material 30 days, Process time 15 days, Finished goods 15 days, and Collection period 30 days?
(A) 60 days
(B) 75 days
(C) 90 days
(D) 120 days

Ans :

(C) 90 days
The total operating cycle duration is the sum of the holding periods for the various stages of current assets. In this case, it is the sum of the procurement/raw material period, conversion/ process period, finished goods holding period, and the average collection period. Therefore, the total operating cycle is 30 + 15 + 15 + 30 = 90 days.

Oct/Nov 2010

26. The Maximum Permissible Bank Finance (MPBF) method was recommended by a Working Group constituted by the RBI. Who headed this committee?
(A) Shri P.L. Tandon
(B) Shri M. Narasimham
(C) Dr. C. Rangarajan
(D) Shri K. C. Chakrabarty

Ans :

(A) Shri P.L. Tandon
To improve the delivery of industrial credit based on performance and projections rather than security, the RBI constituted a Working Group in July 1974. This group was headed by Shri P.L. Tandon, who was the Chairman of Punjab National Bank at the time. The committee's recommendations led to the development of the MPBF concept.

May/June 2014

27. According to the First Method of Lending recommended by the Tandon Committee, what is the minimum contribution the borrowing unit must make towards the working capital gap from long-term funds?
(A) 25% of total current assets
(B) 75% of the working capital gap
(C) 100% of core current assets
(D) 25% of the working capital gap

Ans :

(D) 25% of the working capital gap
The First Method of Lending fixes the borrower's contribution at a minimum of 25% of the working capital gap (which is Total Current Assets minus Current Liabilities other than bank borrowings). The bank then finances a maximum of 75% of this gap. This method was considered suitable for new or weak units and results in a minimum current ratio of 1.17:1.

Oct/Nov 2020

28. The Second Method of Lending under the MPBF framework aims to enhance the borrower's contribution to working capital. What is the minimum current ratio that this method targets?
(A) 1:1
(B) 1.33:1
(C) 1.17:1
(D) 2:1

Ans :

(B) 1.33:1
The Second Method of Lending requires the borrower to provide a minimum of 25% of the total current assets from long-term funds. This higher

the bank is determined by identifying the highest, or 'peak', cash deficit shown in the projected cash budget over the assessment period. This peak deficit represents the maximum funding support the business will require.

May/June 2025

37. A company's cash budget for the second month shows total cash receipts of ₹10 lakh and total cash payments of ₹15 lakh. The opening cash balance was ₹2 lakh. What is the closing cash balance (or deficit) at the end of the second month?
(A) A closing balance of ₹7 lakh
(B) A closing deficit of ₹5 lakh
(C) A closing deficit of ₹3 lakh
(D) A closing balance of ₹–3 lakh

Ans :

(C) A closing deficit of ₹3 lakh
First, calculate the net surplus or deficit for the month: Total Receipts (₹10 lakh) - Total Payments (₹15 lakh) = Net Deficit of ₹5 lakh. This deficit is then adjusted against the opening cash balance. Opening Balance (₹2 lakh) + Net Deficit (-₹5 lakh) = -₹3 lakh. This is a closing cash deficit of ₹3 lakh.

Oct/Nov 2009

38. One of the main advantages of the cash budget system for a banker is that it allows them to:
(A) Avoid all regular communication with the customer once the credit limit has been set
(B) Spot potential danger signals quickly and initiate corrective action in time
(C) Sanction credit limits without assessing the availability of chargeable current assets
(D) Focus solely on historical financial data for making all future credit decisions

Ans :

(B) Spot potential danger signals quickly and initiate corrective action in time
The cash budget system requires periodic, forward-looking information from the customer. This keeps the banker in close touch with the customer's ongoing financial position. By reviewing these projections against actuals, the banker can quickly identify deviations or emerging financial stress, enabling them to spot danger signals early and take timely corrective measures.

May/June 2016

39. Non-fund based credit facilities typically consist of which two types of instruments?
(A) Term loans and cash credit
(B) Overdrafts and bill discounting
(C) Equity funding and debentures
(D) Bank guarantees and letters of credit

Ans :

(D) Bank guarantees and letters of credit
Non-fund based facilities are those where the bank does not immediately disburse funds but provides an undertaking on behalf of the client. These commitments may crystallize into a fund-based exposure later. The two primary types of non-fund based limits are bank guarantees (BG), which are performance or financial undertakings, and letters of credit (LC), which facilitate trade transactions.

Oct/Nov 2024

40. A guarantee required by a company in favour of a State Electricity Board for the regular payment of electricity bills, which remains outstanding as long as the firm is operating, is classified as a:
(A) Permanent Guarantee
(B) Business Activity Related Guarantee
(C) Advance Payment Guarantee
(D) Bid Bond Guarantee

Ans :

(A) Permanent Guarantee
Permanent Guarantees are those that are likely to be required on a fixed basis and will remain outstanding for as long as the business is in operation. A guarantee for electricity dues is a classic example, as it is essential for the normal, ongoing operation of the unit and is not tied to a specific, short-term transaction.

May/June 2007

41. A company bidding for a government contract is often required to furnish a guarantee to the department as part of its tender submission. What is this type of guarantee called?
(A) Performance Guarantee
(B) Retention Money Guarantee
(C) Bid Bond Guarantee
(D) Advance Payment Guarantee

Ans :

(C) Bid Bond Guarantee

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of the bank's prescribed concentration limits for individual, group, or industry exposure.

Oct/Nov 2022

8. The "7 C's of appraisal" are fundamental aspects for evaluating a credit proposal. Which of the following correctly lists some of these 'C's?
(A) Character, Capacity, Capital, and Collateral
(B) Competition, Climate, Compliance, and Communication
(C) Cost, Clarity, CIBIL, and CERSAI
(D) Customer, Company, Country, and Currency

Ans :

(A) Character, Capacity, Capital, and Collateral
The seven C's of appraisal are Creditworthiness, Character, Capacity, Capital, Collateral, Conditions, and Cash flows. These aspects provide a holistic framework for a lender to evaluate a credit proposal thoroughly. They cover the borrower's financial soundness, integrity, repayment ability, financial stake, security, loan terms, and cash generation capability, ensuring a comprehensive assessment of risk.

May/June 2010

9. When evaluating the creditworthiness of a business entity like a private limited company, where does a lender primarily assess its financial soundness?
(A) From the personal income tax returns of its directors and key shareholders
(B) From market inquiries about the company's reputation among suppliers and customers
(C) From its past financial statements, such as the balance sheet and profit and loss account
(D) From the credit information reports of the individual promoters and their personal net worth

Ans :

(C) From its past financial statements, such as the balance sheet and profit and loss account
While market inquiries and promoter credit history are relevant, the primary tool for assessing the financial soundness of business entities like partnership firms or companies is the analysis of their past financial statements. These documents provide a structured and detailed view of the firm's financial condition, performance, and cash generating ability, which are crucial for determining repayment capacity.

Oct/Nov 2019

10. When considering the 'Purpose of the Loan', a key aspect of appraisal, why must a banker be convinced that a business borrower has a well-defined purpose?
(A) To confirm the borrower has a serious intention to be in business and a clear plan for the funds
(B) To ensure the loan amount requested by the borrower is as large as possible
(C) To check if the purpose is speculative, which is often preferred for generating higher returns
(D) To fulfill a regulatory formality that has no real impact on the overall credit quality

Ans :

(A) To confirm the borrower has a serious intention to be in business and a clear plan for the funds
The purpose of a loan is a critical factor in appraisal. A well-defined purpose indicates that the borrower has a clear business strategy and a serious intention to succeed. This helps the banker assess the core competency of the proponent and the viability of the proposed use of funds, whether for capital investment or working capital needs.

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May/June 2006

11. What is the primary role of 'Collateral' in a credit proposal appraisal?
(A) It directly enhances the financial viability and profitability of the business project
(B) It is the main factor determining the intrinsic quality of the credit and the applicable interest rate
(C) It is a substitute for a thorough assessment of the borrower's cash flow and repayment capacity
(D) It serves as an exit option for the lender to recover dues in the event of a default

Ans :

(D) It serves as an exit option for the lender to recover dues in the event of a default
Collateral does not add to the financial viability of a proposal or affect the intrinsic quality of the credit. Its definite role emerges only after a default occurs. It provides the lender with an exit option, allowing for recovery of the loan by enforcing the

(A) The eventual sale of the capital asset that was originally financed by the loan
(B) Fresh equity infusion from the promoters or new investors during the loan tenor
(C) The liquidation of operating stocks and the periodic realization of sundry debtors
(D) The future earnings and cash surplus generated by the business operations

Ans :

(D) The future earnings and cash surplus generated by the business operations
Working capital finance is repaid from the realization of current assets within the operating cycle. A term loan, which finances long-term assets, has a repayment period of 3 to 10 years. Its repayment is not expected from asset liquidation but from the future cash surpluses (profits after tax plus depreciation and other non-cash charges) generated by the business.

May/June 2023

47. When assessing the 'Cost of Project', why is 'Margin for working capital' included as an item to be funded from long-term sources?
(A) To ensure that the initial Net Working Capital (NWC) of the business is funded by stable, long-term funds
(B) Because working capital is considered a non-depreciating fixed asset for accounting purposes
(C) It is a regulatory requirement designed to artificially inflate the total project cost for statistical tracking
(D) To provide a contingency fund that can be used for paying dividends to shareholders in the first year of operation

Ans :

(A) To ensure that the initial Net Working Capital (NWC) of the business is funded by stable, long-term funds
A portion of working capital, known as Net Working Capital (NWC) or margin money, must be financed from long-term sources to ensure financial stability. This is because current liabilities cannot fund all current assets. Including this margin money in the project cost ensures that it is planned for and funded upfront through equity or term finance.

Oct/Nov 2008

48. In project finance, what is the purpose of making a provision for 'Contingencies'?
(A) To cover the planned and itemized costs of plant and machinery
(B) To provide for unexpected cost escalations due to factors like inflation or tax increases
(C) To account for the initial operating losses that are projected for the project
(D) To fund the preliminary and pre-operative expenses incurred before project commencement

Ans :

(B) To provide for unexpected cost escalations due to factors like inflation or tax increases
A contingency provision is an amount included in the project cost to cover unforeseen expenses or cost overruns. These can arise from "non-firm" cost items where prices are not yet fixed. Factors like general inflation, increases in duties or taxes, or other unexpected events can lead to cost escalation, and the contingency fund helps mitigate this risk.

May/June 2017

49. A project has "non-firm" cost items estimated at ₹100 crore, and the implementation period is expected to be 2.5 years. What would be the general provision for contingencies?
(A) 5%
(B) 15%
(C) 10%
(D) 20%

Ans :

(B) 15%
The general guideline for contingency provision is 5% to 10% of the estimated cost of non-firm items if the implementation period is less than one year. For every additional year of implementation, an additional provision of 5% is made. Here, for 2.5 years, the provision would be 10% (base) + 5% (for the second year) = 15%.

Oct/Nov 2022

50. XYZ Ltd. is setting up a project. The cost of Site Development & Building is ₹250 lakh, and the bank requires a 50% margin. The cost of Plant & Machinery is ₹300 lakh, with a required margin of 25%. What is the total term loan amount the bank would consider for these two assets?
(A) ₹350 lakh

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Oct/Nov 2011

23. As per RBI's Large Exposure Norms, what is the maximum exposure a bank can have to a single counterparty?
(A) 15% of the bank's available eligible Tier 1 capital.
(B) 25% of the bank's unimpaired capital funds (Tier I and Tier II).
(C) 20% of the bank's total assets.
(D) 20% of the bank's available eligible Tier 1 capital.

Ans :

(D) 20% of the bank's available eligible Tier 1 capital.
To prevent concentration risk, the RBI has set prudential limits on bank exposures. The sum of all exposure values of a bank to a single counterparty is not permitted to exceed 20% of the bank's available eligible capital base at any time. For this purpose, the eligible capital base is defined as the effective amount of Tier 1 capital.

May/June 2010

24. What is the exposure limit for a bank to a group of connected counterparties, according to RBI's Large Exposure Norms?
(A) 20% of the bank's Tier 1 capital.
(B) 25% of the bank's Tier 1 capital.
(C) 40% of the bank's unimpaired capital funds (Tier I and Tier II).
(D) 50% of the bank's unimpaired capital funds (Tier I and Tier II).

Ans :

(B) 25% of the bank's Tier 1 capital.
Similar to the single counterparty limit, the RBI has a cap on exposures to groups. The sum of all exposure values of a bank to a group of connected counterparties must not be higher than 25% of the bank's available eligible capital base, which is defined as the effective amount of Tier 1 capital.

Oct/Nov 2010

25. If a bank undertakes departmental activities like equipment leasing, hire purchase, and factoring services, what is the maximum exposure it can have to each of these activities?
(A) 5% of total advances
(B) 15% of Tier 1 capital
(C) 10% of total advances
(D) 20% of Tier 1 capital

Ans :

(C) 10% of total advances
To ensure a balanced portfolio and avoid excessive concentration in specific non-core lending activities, banks are guided on their exposure levels. When banks undertake equipment leasing, hire purchase, or factoring services departmentally, their exposure to each of these individual activities should not exceed 10% of the bank's total advances.

May/June 2017

26. A bank's exposure from extending credit/non-credit facilities to Indian Joint Ventures or Wholly-owned Subsidiaries abroad is subject to a limit of:
(A) 10% of the bank's Tier I capital.
(B) 20% of the bank's unimpaired capital funds (Tier I and Tier II).
(C) 25% of the bank's Tier I capital.
(D) 15% of the bank's unimpaired capital funds (Tier I and Tier II).

Ans :

(B) 20% of the bank's unimpaired capital funds (Tier I and Tier II).
Banks are permitted to extend facilities to support the overseas expansion of Indian corporates. However, this exposure is capped. The total of such credit and non-credit facilities is subject to a limit of 20% of the bank's unimpaired capital funds, which includes both Tier I and Tier II capital, subject to specified conditions.

Oct/Nov 2005

27. Which of the following is NOT an objective of the Credit Audit mechanism in a bank?
(A) To provide an independent review of Credit Risk Assessment.
(B) To pick up early warning signals and suggest remedial measures.
(C) To provide feedback on regulatory compliance.
(D) To sanction fresh credit proposals and renewals.

Ans :

(D) To sanction fresh credit proposals and renewals.
Credit Audit is a post-sanction examination process. Its objectives include improving portfolio quality, reviewing the sanction process for

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May/June 2018

55. If a project's DSCR is projected to be very high (e.g., above 2) in the later years of the loan tenor, what might a lender consider?

(A) Immediately classifying the loan as a non-performing asset due to projection errors

(B) Reducing the interest rate on the loan to zero to reward the borrower

(C) Waiving the remaining principal instalments of the loan as a goodwill gesture

(D) Asking the borrower to repay the loan in an accelerated manner

Ans :

(D) Asking the borrower to repay the loan in an accelerated manner

A DSCR significantly above 2 indicates a high repayment capacity, meaning the company is generating substantial surplus cash after servicing its debt. In such cases, the lender may see an opportunity to reduce their exposure faster. They might ask the borrower to increase the instalment amounts, thereby accelerating the repayment and shortening the loan tenor.

Oct/Nov 2007

56. Match the CMA Form in List-I with its primary content in List-II.

List-I (CMA Form)

P. FORM I

Q. FORM III

R. FORM V

S. FORM VI

List-II (Content)

1. Analysis of Balance Sheet
2. Funds Flow Statement
3. Particulars of existing/proposed limits
4. Assessment of MPBF for Working Capital

(A) P-3, Q-1, R-4, S-2

(B) P-1, Q-3, R-2, S-4

(C) P-3, Q-4, R-1, S-2

(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-3, Q-1, R-4, S-2

FORM I contains details of existing and proposed credit limits. FORM III is used for the analysis of the balance sheet. FORM V is specifically for the computation of Maximum Permissible Bank Finance (MPBF). FORM VI is the Funds Flow Statement, which analyzes the movement of funds and helps identify any potential diversion of funds.

May/June 2024

57. A company has a term loan with an annual interest component of ₹70 lakh and a principal instalment of ₹204 lakh. Its cash surplus (PAT + Depreciation + Provisions) for the year is ₹250 lakh. What is the DSCR for the term loan instalment?

(A) 0.91

(B) 1.2

(C) 1.23

(D) 2.6

Ans :

(C) 1.23

The DSCR for the term loan instalment is calculated as Cash Surplus divided by the Term Loan Instalment. The formula is]

$$\text{DSCR} = \frac{\text{CashSurplus}}{\text{TermLoanInstalment}}.$$

Using the given figures, the calculation is

$$\frac{250\text{lakh}}{204\text{lakh}} \approx 1.225.$$

This is approximately 1.23. It indicates a small but positive cushion after paying the principal.

Oct/Nov 2021

58. Identify the incorrect statement regarding the assessment of term loans.

(A) Preliminary and pre-operative expenses are typically funded entirely by bank term loans.

(B) The credit risk in a term loan is generally greater than in working capital finance due to the longer tenure.

(C) The debt-equity structure of a project is examined to ensure leveraging is within a reasonable range.

(D) Assessment requires estimating future cash surplus to determine the ability to service the loan.

Ans :

(A) Preliminary and pre-operative expenses are typically funded entirely by bank term loans.

Banks generally do not finance all items of a project's cost. Specifically, expenses such as preliminary and pre-operative costs are not funded by banks. These are required to be met entirely from the entrepreneur's own sources or equity. Banks focus on funding tangible assets

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(B) ₹550 lakh
(C) ₹200 lakh
(D) ₹275 lakh

Ans :

(A) ₹350 lakh
The loan amount for each asset is its cost minus the margin amount. For Site Development & Building: Loan = $250\text{lakh} \times (1 - 50\%) = 125\text{lakh}$. For Plant & Machinery: Loan = $300\,\text{lakh} \times (1 - 25\%) = 225\,\text{lakh}$. The total term loan for these two assets is the sum of the individual loan amounts: 125 lakh + 225.lakh = 350 lakh.

May/June 2010

51. Which of the following is an example of a 'Miscellaneous Source' of finance for a project?
(A) Equity share capital from promoters and their associates
(B) Term loans from financial institutions and commercial banks
(C) Unsecured loans from friends and public deposits
(D) Capital subsidy received from the central or state government

Ans :

(C) Unsecured loans from friends and public deposits
Miscellaneous sources typically constitute a small portion of project finance and include funds from sources other than primary equity and secured debt. Examples include unsecured loans from friends and relatives, public deposits, and financing from leasing or hire purchase. These are distinct from share capital, institutional term loans, and government incentives like subsidies.

Oct/Nov 2019

52. To assess the viability of a business for a term loan, projections of costs and sales are required for what duration?
(A) Only for the following one year, similar to working capital assessment
(B) For the past five years to establish a historical trend
(C) Only for the construction and implementation period of the project
(D) For the entire tenor of the term loan

Ans :

(D) For the entire tenor of the term loan
While working capital assessment may only require projections for the next year, term loan appraisal is different. Since a term loan is repaid over several years from future profits, it is essential to assess the project's viability over its entire life. Therefore, estimates of sales, costs, and profits are required for the entire repayment period of the loan.

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May/June 2006

53. The formula for Debt Service Coverage Ratio (DSCR) is given as:

$$\text{DSCR} = \frac{\text{Netprofit} + \text{Depreciation} + \text{OtherNon} - \text{CashExpenses} + \text{Interestontermloan}}{\text{Interestontermloan} + \text{Instalmentsoftermloan}}$$

What does the numerator in this formula represent?
(A) Profit before tax
(B) Net profit margin
(C) Cash profit available for debt servicing
(D) Total revenue of the company

Ans :

(C) Cash profit available for debt servicing
The numerator represents the total cash generated by the business that is available to service its debt obligations. It starts with net profit and adds back non-cash expenses like depreciation and provisions, as well as the interest on term loans (since this is a part of the debt service itself). This figure is also known as cash profit before finance cost.

Oct/Nov 2013

54. What is generally considered a reasonable average Debt Service Coverage Ratio (DSCR) for a project over the loan's repayment period?
(A) Less than 1.00
(B) Around 1.50
(C) Exactly 1.00
(D) Above 3.00

Ans :

(B) Around 1.50
An average DSCR of 1.50 is generally considered reasonable by lenders. A ratio of 1.0 means the cash generated is just enough to cover the debt obligations, leaving no cushion. A ratio of 1.50 indicates that the firm generates 1.5 times the cash required for its annual interest and principal payments, providing a margin of safety for the lender.

CHAPTER 24

Operational Aspects of Loan Accounts

Oct/Nov 2015

1. Which of the following represents the correct chronological evolution of benchmark interest rate systems for bank loans in India?
(A) Base Rate System → Prime Lending Rate → External Benchmark → MCLR
(B) Prime Lending Rate → Base Rate System → MCLR → External Benchmark
(C) MCLR → Base Rate System → Prime Lending Rate → External Benchmark
(D) Prime Lending Rate → MCLR → Base Rate System → External Benchmark

Ans :

(B) Prime Lending Rate → Base Rate System → MCLR → External Benchmark
The initial approach for determining lending rates was based on the Prime Lending Rate (PLR) as an internal benchmark. This was subsequently replaced by the Base Rate System, which was further modified to the Marginal Cost of Funds Based Lending Rate (MCLR). The final evolution was the encouragement to switch over to an external benchmark system.

May/June 2021

2. The Base Rate system, recommended by the working group chaired by Shri Deepak Mohanty, replaced the Benchmark Prime Lending Rate (BPLR) system with effect from which date?
(A) July 1, 2010
(B) April 1, 2016
(C) October 1, 2019
(D) March 31, 2016

Ans :

(A) July 1, 2010
Based on the recommendations of the Reserve Bank Working Group on Benchmark Prime Lending Rate (BPLR), the Base Rate system was introduced to make credit pricing more transparent. This new system replaced the BPLR system and was implemented with effect from July 1, 2010, including cost elements common across all categories of borrowers.

Oct/Nov 2009

3. According to the basic norms of the Base Rate system, all floating rate rupee loans sanctioned and renewed between July 1, 2010, and which other date were priced with reference to the Base Rate?
(A) December 31, 2015
(B) April 1, 2016
(C) March 31, 2016
(D) September 30, 2019

Ans :

(C) March 31, 2016
The basic norms of the Base Rate system stipulated that it would serve as the internal benchmark for pricing specific loans. All floating rate rupee loans that were sanctioned and renewed during the period starting from July 1, 2010, up to and including March 31, 2016, were required to be priced with reference to the Base Rate.

May/June 2016

4. Under the Base Rate system, what was the minimum period for which the Base Rate methodology, once finalized by a bank, could not be reviewed?
(A) One year from the date of its finalization
(B) Two years from the date of its finalization
(C) Five years from the date of its finalization
(D) Three years from the date of its finalization

Ans :

(D) Three years from the date of its finalization
To ensure stability and consistency in the lending rate framework, the norms for the Base Rate system mandated a lock-in period for the methodology used in its calculation. Once a bank finalized its Base Rate methodology, it was not permitted to be reviewed for a minimum period of three years from the date of its finalization.

Oct/Nov 2024

5. As of July 2012, which of the following loan categories was NOT exempt from being priced with reference to the Base Rate?

NODIA

(D) Business strategy and Credit risk premium

Ans :

(D) Business strategy and Credit risk premium
The final lending rate for a borrower is determined by adding a spread to the relevant MCLR. This spread is based on a policy for charging customers and has two main components. The first is the business strategy component, and the second is the credit risk premium, which reflects the default risk of the specific borrower.

Oct/Nov 2022

15. The actual lending rates for all loans linked to a benchmark are determined by adding spread components to the benchmark. What is the maximum permissible interest reset periodicity for such loans?
(A) One year or lower
(B) Six months or lower
(C) Two years or lower
(D) Three years or lower

Ans :

(A) One year or lower
For loans linked to a benchmark rate, the interest rate is subject to periodic resets. The loan agreements must mention the reference benchmark rate and the interest reset periodicity. According to the guidelines, this periodicity for resetting the interest rate is mandated to be one year or lower, ensuring rates are updated in a timely manner.

May/June 2018

16. Which of the following loan categories is exempted from the provisions related to interest rates based on either internal or external benchmarks?
(A) Fixed rate loans of tenor above three years
(B) Loans granted under various refinance schemes formulated by the Government of India
(C) Floating rate loans to Micro and Small Enterprises
(D) New floating rate personal or retail loans

Ans :

(B) Loans granted under various refinance schemes formulated by the Government of India
While most loans are linked to benchmarks, certain categories are exempt. Loans granted under government refinance schemes, where interest rates are prescribed by the scheme itself, fall under this exemption. However, the portion of the loan not covered by refinance must adhere to the prevailing Base Rate/MCLR/External Benchmark guidelines.

Oct/Nov 2016

17. Effective from October 1, 2019, all new floating rate personal or retail loans and floating rate loans to Micro and Small Enterprises must be benchmarked to an external benchmark. Which of the following is NOT one of the prescribed external benchmarks?
(A) RBI policy repo rate
(B) Government of India 1-Year Treasury Bill yield published by FBIL
(C) Government of India 3-Months Treasury Bill yield published by FBIL
(D) Government of India 6-Months Treasury Bill yield published by FBIL

Ans :

(B) Government of India 1-Year Treasury Bill yield published by FBIL
The RBI has specified a set of permissible external benchmarks for linking certain floating rate loans. These include the RBI policy repo rate, the 3-Month and 6-Month Treasury Bill yields published by Financial Benchmarks India Private Ltd. (FBIL), and any other benchmark market interest rate published by FBIL. A 1-Year Treasury Bill yield is not on this prescribed list.

May/June 2014

18. What is the RBI's stipulation regarding the adoption of external benchmarks by a bank for its loan products?
(A) A bank must adopt a uniform external benchmark within a specific loan category.
(B) A bank can use multiple external benchmarks within the same loan category.
(C) A bank must use only the RBI policy repo rate for all retail loans.
(D) A bank is free to switch between different benchmarks for a single loan during its tenor.

Ans :

(A) A bank must adopt a uniform external benchmark within a specific loan category.
To ensure transparency, standardisation, and ease of understanding for borrowers, the RBI has mandated a specific rule for applying external benchmarks. A bank must adopt a uniform

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May/June 2012

10. According to RBI guidelines, what is the rule regarding penal interest on priority sector loans as of the end of March 2022?

(A) No penal interest should be charged for loans up to ₹25,000.

(B) A fixed penal interest of 2% is applicable for all priority sector loans.

(C) Penal interest can be charged only on default of more than 90 days.

(D) No penal interest should be charged for any agricultural advances.

Ans :

(A) No penal interest should be charged for loans up to ₹25,000.

While banks are required to have a Board-approved policy for charging penal interest, specific protections are in place for small borrowers. As of the end of March 2022, RBI guidelines stipulate that no penal interest should be charged by banks for loans under the priority sector for amounts up to ₹25,000, promoting fairness for small-ticket loans.

Oct/Nov 2014

11. All floating rate rupee loans sanctioned and renewed with effect from which date are priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR)?

(A) July 1, 2010

(B) December 31, 2015

(C) October 1, 2019

(D) April 1, 2016

Ans :

(D) April 1, 2016

The MCLR system became the mandatory internal benchmark for pricing certain loans from a specific date. As per RBI directives, all floating rate rupee loans sanctioned and renewed with effect from April 1, 2016, were to be priced with reference to the MCLR, excluding cases where an external benchmark was required to be adopted.

May/June 2019

12. Match the components of MCLR in List-I with their correct description in List-II.

List-I (Component)

P. Marginal cost of funds

Q. Negative carry on CRR

R. Operating costs

S. Tenor premium

List-II (Description)

1. Uniform premium across all borrowers for longer residual tenor loans.
2. Determined from marginal cost of borrowings and return on net worth.
3. All costs incurred in providing the loan, including cost of raising funds.
4. Determined based on the computed marginal cost of funds as cash reserves earn no interest.

(A) P-2, Q-4, R-3, S-1

(B) P-1, Q-2, R-3, S-4

(C) P-2, Q-3, R-4, S-1

(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-2, Q-4, R-3, S-1

The MCLR comprises four components. The marginal cost of funds is derived from borrowings and return on net worth. The negative carry on CRR arises because these reserves earn no interest. Operating costs include all expenses in providing the loan. The tenor premium is a charge for longer-term loans, depending solely on the residual tenor.

Oct/Nov 2006

13. Banks are required to publish a minimum of how many MCLRs, and what is the mandated frequency for their review and publication?

(A) Four MCLRs, reviewed quarterly

(B) Six MCLRs, reviewed quarterly

(C) Five MCLRs, reviewed monthly

(D) Five MCLRs, reviewed annually

Ans :

(C) Five MCLRs, reviewed monthly

To provide transparency and options for different loan tenors, banks are mandated to publish at least five different MCLRs: overnight, one-month, three-month, six-month, and one-year. Furthermore, to ensure these rates reflect current costs, banks must review and publish their MCLR of different maturities every month on a pre-announced date.

May/June 2005

14. What are the two main components that banks consider for charging a spread to a customer over and above the MCLR?

(A) Business strategy and Operating costs

(B) Credit risk premium and Tenor premium

(C) Market liquidity and Negative carry on CRR

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and require the promoter to bring in their own contribution.

May/June 2015

59. Refer to the 7-year financial projection table for ABC Ltd. In Year 1, the Cash Surplus (before Term Loan Interest) is ₹320 lakh, and the total Repayment obligations (including interest) are ₹274 lakh. In Year 5, the Cash Surplus is ₹396 lakh, and Repayment obligations are ₹98 lakh. What can be inferred from this data?

(A) The company's repayment capacity is decreasing over the loan tenor.

(B) The loan is structured with uniform, equal repayments throughout its tenor.

(C) The company is projected to default on its loan obligations in the first year of operation.

(D) The margin of safety for debt servicing is significantly lower in the initial year compared to later years.

Ans :

(D) The margin of safety for debt servicing is significantly lower in the initial year compared to later years.

In Year 1, the surplus after debt servicing is ₹320 lakh - ₹274 lakh = ₹46 lakh. In Year 5, the surplus is ₹396 lakh - ₹98 lakh = ₹298 lakh. This clearly shows that the cushion or margin of safety is much smaller in the beginning of the loan period and increases substantially in later years as profits grow and loan obligations decrease.

Oct/Nov 2016

60. When a lender is considering a term loan proposal for a second-hand machine, what specific document is essential to obtain for valuation and assessment?

(A) The original invoice from when the machinery was first purchased by the previous owner

(B) A certificate from a qualified Chartered Engineer

(C) A letter of comfort or reference from the previous owner of the machine

(D) The company's annual report for the previous financial year

Ans :

(B) A certificate from a qualified Chartered Engineer

When financing second-hand machinery, its current value, residual life, and operational condition are critical. Unlike new machinery with a clear invoice price, these aspects must be assessed by an independent expert. Therefore, it is standard practice for banks to require a valuation and condition certificate from a qualified and approved Chartered Engineer to support the loan appraisal.

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external benchmark within a given loan category. The use of multiple benchmarks by the same bank within one loan category is not permitted under the guidelines.

Oct/Nov 2007

19. Consider the following statements regarding the transition of existing loans to the external benchmark regime:
Statement I: Existing loans linked to MCLR/Base Rate/BPLR must be compulsorily switched to an external benchmark.
Statement II: Borrowers eligible for prepayment of floating rate loans without charges can switch over to the external benchmark without any fees, except for reasonable administrative costs.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Only Statement I is correct.
(D) Only Statement II is correct.

Ans :

(D) Only Statement II is correct.
Statement I is incorrect because existing loans linked to older benchmarks can continue till repayment or renewal. Statement II is correct as the guidelines provide an option for eligible borrowers to switch to the external benchmark regime without incurring prepayment charges or other fees, apart from reasonable administrative and legal costs associated with the switch.

May/June 2025

20. The term 'Credit Management' in banks encompasses several key areas. Which of the following are included?
1. Capital adequacy norms
2. Risk management, including ALM
3. Exposure norms
4. Asset classification, income recognition, and provisioning norms

(A) 1 and 3 only
(B) 2, 3 and 4 only
(C) 1, 2 and 4 only
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4
Credit management is a comprehensive function that goes beyond just loan appraisal and sanction. It encompasses a wide range of critical areas including capital adequacy norms, risk management (such as ALM), credit exposure norms, risk pricing policy, and the norms for asset classification, income recognition, and provisioning, ensuring a holistic approach to managing the credit portfolio.

Oct/Nov 2019

21. When arriving at the credit exposure of a borrower, how is the exposure limit determined?
(A) The sanctioned limits or the outstanding amount, whichever is lower.
(B) Only the outstanding amount in the account.
(C) The sanctioned limits or the outstanding amount, whichever is higher.
(D) Only the sanctioned limits of the facilities.

Ans :

(C) The sanctioned limits or the outstanding amount, whichever is higher.
For the purpose of calculating credit exposure, banks are required to reckon the higher of two values: the sanctioned credit limits (both funded and non-funded) and the actual outstanding amount. This ensures that the potential risk, represented by the undrawn portion of the sanctioned limit, is also factored into the total exposure calculation.

May/June 2009

22. A bank has provided a term loan of ₹50 crore to a company, which has been fully disbursed. The current outstanding amount is ₹35 crore, and there is no provision for re-drawal of the repaid amount. For the purpose of calculating credit exposure, what amount should the bank reckon?
(A) ₹50 crore
(B) ₹35 crore
(C) ₹15 crore
(D) The higher of ₹50 crore or ₹35 crore

Ans :

(B) ₹35 crore
The general rule for exposure calculation is to take the higher of the sanctioned limit or the outstanding amount. However, an exception exists for fully drawn term loans where there is no scope for re-drawal of any portion of the sanctioned limit. In such specific cases, the bank may reckon the outstanding amount as the exposure.

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(A) Loans to banks' own employees including retired employees
(B) DRI Advances
(C) Working Capital Term Loans (WCTL)
(D) Loans to banks' depositors against their own deposits

Ans :

(C) Working Capital Term Loans (WCTL)
As of July 2012, certain categories of loans could be priced without reference to the Base Rate. These included DRI advances, loans to bank employees, and loans against bank deposits. Working Capital Term Loans (WCTL) were not part of this specific list of exemptions and were covered under different guidelines, particularly relating to restructuring packages.

May/June 2007

6. What was the mandated minimum frequency for the review and publication of the Base Rate by banks?
(A) At least at monthly intervals
(B) At least at quarterly intervals
(C) At least at half-yearly intervals
(D) At least at yearly intervals

Ans :

(B) At least at quarterly intervals
To ensure that the Base Rate reflects the current cost structure and remains relevant, banks were required to review it periodically. The guidelines stipulated that the Base Rate had to be reviewed and made public at least at quarterly intervals, allowing for timely adjustments based on changes in the bank's cost of funds and other parameters.

Oct/Nov 2018

7. Which of the following statements is incorrect regarding the calculation of the Base Rate?
(A) It included the card interest rate on retail deposits below ₹15 lakh with one year maturity.
(B) It included unallocatable overhead costs for the bank.
(C) It included the average return on net worth.
(D) It included an adjustment for the positive carry in respect of CRR and SLR.

Ans :

(D) It included an adjustment for the positive carry in respect of CRR and SLR.
The Base Rate calculation comprised four main constituents. These were the card rate on retail deposits, unallocatable overhead costs, and average return on net worth. It also included an adjustment for the negative carry on account of the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR), not a positive carry, as funds under CRR earn no interest.

May/June 2023

8. Under the Base Rate system, a change in the tenor premium for loans was required to be:
(A) Uniform for all types of loans for a given residual tenor
(B) Borrower specific, based on individual credit history
(C) Loan class specific, based on the type of loan product
(D) Applicable only to loans under consortium arrangements

Ans :

(A) Uniform for all types of loans for a given residual tenor
The guidelines for the Base Rate system stipulated that any change in the tenor premium should not be specific to a particular borrower or a specific class of loan. Instead, the change in tenor premium was required to be uniform across all types of loans for a given residual tenor, ensuring non-discriminatory pricing for tenor risk.

Oct/Nov 2025

9. The Marginal Cost of Funds Based Lending Rate (MCLR) was introduced by the RBI to serve as an internal benchmark, with provisions for it being issued in the Master Direction on Interest Rate on Advances in which year?
(A) 2010
(B) 2015
(C) 2016
(D) 2019

Ans :

(C) 2016
The Reserve Bank of India reviewed the base rate determination norms and introduced the Marginal Cost of Funds Based Lending Rate (MCLR) concept in December 2015. Subsequently, in March 2016, the Master Direction - Reserve Bank of India (Interest Rate on Advances) Directions, 2016, was issued, formalizing the provisions and application of the MCLR framework.

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compliance, providing feedback on regulations, and identifying early warning signals. The function of appraising and sanctioning new or renewed credit proposals is a separate pre-sanction activity and is not an objective of the credit audit itself.

May/June 2020

28. The frequency of a loan review under the credit audit mechanism should vary depending on the magnitude of risk. What is the suggested frequency for high-risk, average-risk, and low-risk accounts respectively?
(A) 3 months, 6 months, 1 year
(B) 6 months, 1 year, 2 years
(C) 1 month, 3 months, 6 months
(D) 3 months, 1 year, 2 years

Ans :

(A) 3 months, 6 months, 1 year
A risk-based approach is recommended for determining the frequency of loan reviews. For accounts classified as high-risk, a more frequent review of 3 months is suggested. For average-risk accounts, a 6-month interval is appropriate, while low-risk accounts may be reviewed annually (1 year), allowing the bank to focus its resources on higher-risk exposures.

Oct/Nov 2015

29. What is the primary purpose of credit monitoring?
(A) To approve sanction terms and conditions for new loans.
(B) To conduct a one-time verification of the borrower's business.
(C) To ensure the quality of loan assets and adherence to regulatory IRAC guidelines.
(D) To set the interest rate and processing fees for the loan.

Ans :

(C) To ensure the quality of loan assets and adherence to regulatory IRAC guidelines.
Credit monitoring is a continuous supervision process aimed at maintaining the health of the loan portfolio. Its core objective is to ensure the quality of loan assets, verify the borrower's compliance with sanction terms, and ensure adherence to regulatory guidelines like Income Recognition and Asset Classification (IRAC), thereby preventing asset quality deterioration.

May/June 2013

30. Under the Credit Monitoring Arrangement, what is the minimum current ratio that a borrower is generally expected to maintain, except for export industry and new units?
(A) 1.33
(B) 1.00
(C) 1.15
(D) 1.50

Ans :

(A) 1.33
The Credit Monitoring Arrangement (CMA) includes several financial discipline covenants. One key requirement is that the borrower maintains a minimum current ratio, which indicates liquidity. Except for specific cases like the export industry and new units, borrowers are generally required to maintain a current ratio of at least 1.33, ensuring a healthy working capital position.

NODIA

Oct/Nov 2021

31. During the scrutiny of a borrower's stock statement, a credit officer observes a consistently high level of raw materials and a low level of finished goods. The company is not in a seasonal industry. What is the most likely inference the officer should draw?
(A) The company's products are of poor quality.
(B) The market for the company's products is very slow.
(C) The company is diverting funds to other activities.
(D) The company has poor inventory management.

Ans :

(D) The company has poor inventory management.
Scrutiny of stock statements provides valuable insights. A high level of finished goods may indicate a slow market or poor product quality. Conversely, a consistently high level of raw materials suggests inefficient inventory management, such as over-purchasing or slow processing, which can tie up working capital unnecessarily and increase holding costs.

May/June 2024

32. If a financial covenant in a loan agreement is not observed by the borrower, it is termed an "event

(D) 10%

To safeguard its interest in the hypothecated asset, the bank requires comprehensive insurance. The policy amount must be sufficient to cover the higher of the vehicle's market value or the loan outstanding plus a buffer. This buffer is set at 10% above the loan amount outstanding, ensuring adequate coverage even after accounting for some depreciation.

May/June 2018

58. Based on RBI guidelines for recovery agents, which state "...persistently calling the borrower and/or calling the borrower before 8:00 a.m. and after 7:00 p.m. for recovery of overdue loans...", during which hours are they prohibited from calling a borrower for recovery?

(A) Before 8:00 a.m. and after 7:00 p.m.
(B) Before 9:00 a.m. and after 6:00 p.m.
(C) Before 10:00 a.m. and after 5:00 p.m.
(D) Before 7:00 a.m. and after 8:00 p.m.

Ans :

(A) Before 8:00 a.m. and after 7:00 p.m.

The RBI has issued strict guidelines to prevent harassment during debt collection. These rules, which are part of the Fair Practices Code, explicitly prohibit recovery agents from calling borrowers for the purpose of recovering overdue loans at odd hours. The prohibited time window is specified as before 8:00 in the morning and after 7:00 in the evening.

Oct/Nov 2016

59. As per the Fair Practices Code for Lenders, what must banks disclose to the borrower to enable comparison with other sources of finance?

(A) The bank's MCLR for the previous quarter.
(B) The names of the credit committee members.
(C) The 'all-in-cost' of the loan.
(D) The bank's overall profitability ratios.

Ans :

(C) The 'all-in-cost' of the loan.

For transparency and to empower borrowers, the Fair Practices Code mandates clear communication of all costs associated with a loan. Banks must inform the customer of the 'all-in-cost', which includes all fees and charges, not just the interest rate. This enables the borrower to make an informed decision by comparing the total cost with other available financing options.

May/June 2014

60. A borrower submits a request to their bank for the transfer of their borrowal account to another financial institution. As per the general guidelines on fair practices, within what timeframe should the existing lender convey its consent or objection?

(A) Within 21 days from the date of receipt of request.
(B) Within 7 working days from the date of receipt of request.
(C) Within 15 days from the date of receipt of request.
(D) Within 30 days from the date of receipt of request.

Ans :

(A) Within 21 days from the date of receipt of request.

To ensure fair treatment and prevent undue delays that could disadvantage a borrower, a specific timeline is set for handling takeover requests. The Fair Practices Code guidelines state that upon receiving a request for the transfer of a borrowal account, the lender must convey its consent or objection, if any, within 21 days from the date of receiving the request.

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(C) Quarterly and Weekly
(D) Monthly and Quarterly

Ans :

(B) Monthly and Weekly
The CRILC reporting framework has different frequencies for different types of information to ensure timely updates. The comprehensive CRILC-Main Report is required to be submitted on a monthly basis. However, to track stress in the system more promptly, a report on all instances of default by borrowers must be submitted on a weekly basis.

Oct/Nov 2013

37. A loan account where a suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS) is known as a:
(A) Special Mention Account (SMA)
(B) Non-Cooperative Account (NCA)
(C) Doubtful Asset Account (DAA)
(D) Red Flagged Account (RFA)

Ans :

(D) Red Flagged Account (RFA)
A Red Flagged Account (RFA) is a classification used for an account where early warning signals (EWS) suggest a potential fraudulent activity. This classification triggers a closer look and investigation by the bank to determine if a fraud has indeed occurred. It is a proactive measure to identify and deal with potential fraud cases early.

May/June 2015

38. The following source describes the ownership of CERSAI: "Central Registry of Securitisation Asset Reconstruction and Security Interest of India is a Government of India Company licensed under Section 8 of the Companies Act, 2013 with Govt. of India; having a shareholding of 51% by the Central Government and select Public Sector Banks and the National Housing Bank also being shareholders of the Company." Based on this source, what is the shareholding structure of CERSAI?
(A) The Central Government holds 51%, with PSBs and NHB as other shareholders.
(B) It is wholly owned by the Government of India.
(C) It is a joint venture between Public Sector Banks and Private Sector Banks.
(D) It is primarily owned by the National Housing Bank with a 51% stake.

Ans :

(A) The Central Government holds 51%, with PSBs and NHB as other shareholders.
The provided text explicitly describes the ownership structure of the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI). It states that the Government of India has a 51% shareholding, establishing it as a Government Company, while select Public Sector Banks and the National Housing Bank are also shareholders in the entity.

Oct/Nov 2012

39. Which of the following best describes a floating charge?
(A) A charge on a specific, identifiable asset that cannot be dealt with without the bank's consent.
(B) A personal guarantee given by a third party for the payment of dues in case of default.
(C) An equitable charge on a class of assets, present and future, which becomes fixed upon a specified event.
(D) A charge created over the assets of a guarantor, enforceable only through a court of law.

Ans :

(C) An equitable charge on a class of assets, present and future, which becomes fixed upon a specified event.
A floating charge is distinct from a fixed charge. It is an equitable charge that applies to a shifting stock of assets, such as inventory or receivables, both present and future. It remains "floating" until an event like default occurs, at which point it "crystallizes" or becomes a fixed charge on the assets present at that time.

May/June 2011

40. Assertion (A): Even if a bank avails of refinance for an eligible advance from an agency like NABARD or SIDBI, the credit risk remains with the bank.
Reason (R): Refinance is a facility to improve the bank's liquidity position and does not transfer the underlying risk of the loan asset to the refinancing agency.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

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Oct/Nov 2012

4. An unsecured loan, often referred to as a 'clean' loan, is extended by a bank based on what fundamental premise?

(A) The availability of tangible assets purchased out of the bank funds.

(B) The creation of a mortgage on the borrower's immovable property.

(C) The deposit of shares and merchandise in the bank's godown under a pledge agreement.

(D) The bank's reliance on the personal integrity and creditworthiness of the borrower.

Ans :

(D) The bank's reliance on the personal integrity and creditworthiness of the borrower.

Unsecured loans are the antithesis of secured loans and are granted without obtaining any security. The decision to extend such credit is based entirely on the banker's confidence in the borrower's capacity and willingness to repay. The principal basis for these transactions is the personal credit or 'creditworthiness' of the customer, reflecting their financial strength and integrity.

May/June 2018

5. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R).

Assertion (A): Banks generally prefer granting secured loans over unsecured loans.

Reason (R): A security acts as a cushion to absorb the shocks of a borrower's economic failure and serves as a deterrent against any tendency to default on repayment.

In the context of the two statements, which of the following is correct?

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).

(C) (A) is true, but (R) is false.

(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).

Banks prefer secured loans because recovery is largely dependent on the economic success of the borrower, which is uncertain. The security provides a fallback mechanism, allowing the bank to sell the charged asset to recover the loan if the borrower defaults. This mitigates credit risk and discourages default, making it the primary reason for preferring secured lending.

Oct/Nov 2009

6. Securities offered by borrowers to banks are primarily classified into four major categories. Which of the following correctly lists these categories?

(A) Immovable assets, Movable assets, Goodwill, and Brand Value.

(B) Immovable assets, Movable assets, Actionable claims/Financial assets, and Intangible assets.

(C) Tangible assets, Intangible assets, Liquid assets, and Fixed assets.

(D) Primary security, Collateral security, Personal security, and Corporate security.

Ans :

(B) Immovable assets, Movable assets, Actionable claims/Financial assets, and Intangible assets.

The securities offered by borrowers are broadly categorized into four types. These are immovable assets like land and buildings; movable assets such as goods and vehicles; actionable claims or financial assets like book debts and life insurance policies; and intangible assets which can include items like brand value or goodwill, although these are less commonly accepted by banks.

May/June 2023

7. In the context of bank lending, what is the fundamental difference between a primary security and a collateral security?

(A) Primary security is always an immovable asset, whereas collateral security is always a movable asset.

(B) Primary security is owned by the borrower, whereas collateral security is always owned by a third-party guarantor.

(C) Primary security has a lower margin requirement, whereas collateral security has a higher margin requirement.

(D) Primary security is the asset against which the advance is made, while collateral security is any other asset offered to support the same loan.

Ans :

(D) Primary security is the asset against which the advance is made, while collateral security is any other asset offered to support the same loan.

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(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
A bank's operating manual is a comprehensive guide for its staff. Its contents are shaped by three primary pillars: the fundamental principles of credit (like safety, liquidity, profitability), the external regulatory and legal environment mandated by authorities like the RBI, and the bank's specific internal loan policy, which reflects its strategic goals and risk appetite.

Oct/Nov 2009

45. Which of the following is NOT a general requirement for goods, produce, or merchandise to be accepted as security for a bank loan?
(A) They should have a high turnover rate and be perishable.
(B) They should be easily marketable with an unrestricted market.
(C) Their day-to-day prices should be easily ascertainable.
(D) Their prices should be relatively stable and not fluctuate widely.

Ans :

(A) They should have a high turnover rate and be perishable.
For goods to be considered good security, they should ideally be non-perishable and not liable to rapid deterioration. They must also have stable, easily ascertainable prices and a ready market. Perishable goods with high turnover are generally avoided as they pose a higher risk of value loss and are difficult to control as security.

May/June 2023

46. While advancing against goods, a margin is kept on the value of the goods. What is the typical margin range for general stock of goods, and what can it be for export finance against stocks?
(A) General: 10-15%; Export: 5%
(B) General: 25-30%; Export: as low as 10%
(C) General: 40-50%; Export: 25%
(D) General: 50%; Export: 20%

Ans :

(B) General: 25-30%; Export: as low as 10%
The margin acts as a cushion against price falls. For general advances against stock of goods, this margin typically varies from 25% to 30%, depending on the nature of the stock and the borrower's creditworthiness. To promote exports, a lower margin, which can be as low as 10%, is often applied for export finance against stocks.

Oct/Nov 2018

47. Based on the following source regarding insurance clauses, what is the consequence of under-insuring goods under a policy containing an 'Average Clause'?
"Insurance must be for full marketable value of the goods pledged/hypothecated to the bank. This is necessary in view of the 'Average Clause'. The effect of this clause is that if the value of the goods is more than the insurance cover, the insured is considered to be his own underwriter for the difference in value and the insurance company will pay pro rata for any losses."
(A) The insurance policy becomes completely void.
(B) The insurance company will pay the full amount of the loss up to the policy value.
(C) The bank must cover the shortfall in the insurance claim.
(D) The insurance company will pay only a proportionate amount of the loss.

Ans :

(D) The insurance company will pay only a proportionate amount of the loss.
The 'Average Clause' penalizes under-insurance. If goods are insured for less than their full value, the insured is deemed to be self-insuring the uninsured portion. In the event of a partial loss, the insurance company will not pay the full loss amount but will only pay a pro-rata or proportionate share, calculated based on the ratio of the insured sum to the total value.

May/June 2007

48. A borrower has goods valued at ₹2 lacs pledged to a bank. The goods are insured for only ₹1 lac under a policy with an 'Average Clause'. If a fire causes a loss of ₹50,000, how much will the insurance company pay?
(A) ₹25,000
(B) ₹50,000
(C) ₹1,00,000
(D) Nil, as the goods were under-insured.

Ans :

(A) ₹25,000

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Due to the 'Average Clause', the payout is proportionate to the level of insurance. The claim is calculated as:

$$\left(\frac{\text{PolicyValue}}{\text{ActualValueofGoods}}\right) \times \text{Loss}$$

In this case, the calculation is

$$\left(\frac{1,00,000}{2,00,000}\right) \times 50,000 = 0.5 \times 50,000$$

$$= 25,000$$

The borrower is considered their own underwriter for the remaining loss.

Oct/Nov 2025

49. In the case of advances against Warehouse Receipts, what is the required quality grade for stocks of foodgrains to be accepted as security?

(A) Grade I and Grade II ('fair') quality.
(B) Any grade from I to IV, as long as the receipt is negotiable.
(C) Only Grade I ('good') quality.
(D) Only Grade IV ('poor') if a higher margin is applied.

Ans :

(C) Only Grade I ('good') quality.
To ensure the quality and value of the underlying security, banks must be selective when financing against warehouse receipts for foodgrains. The guidelines explicitly state that no advance should be made against stocks marked as Grade II, III, or IV. Only stocks that are classified as Grade I, representing 'good' quality, should be accepted as security.

May/June 2012

50. For an advance to be made against a Warehouse Receipt, the receipt must have a specific character. Which type of Warehouse Receipt is acceptable for such advances?

(A) A 'Negotiable' Warehouse Receipt
(B) A 'Non-negotiable' Warehouse Receipt
(C) A 'Restricted' Warehouse Receipt
(D) A 'Temporary' Warehouse Receipt

Ans :

(A) A 'Negotiable' Warehouse Receipt
The character of the warehouse receipt is critical for its use as a security instrument. A 'Negotiable' receipt can be transferred by endorsement, allowing the bank to easily establish its rights over the goods. The guidelines state that no advance should be made against a 'Non-negotiable' Warehouse Receipt, as it restricts transferability and complicates enforcement.

Oct/Nov 2014

51. The following guideline applies to educational loans: "For Persons of Indian Origin (PIO) / Overseas Citizens in India (OCI)... loans can be considered for studies in India only. However, such facility will be subject to Regulation 7 (C) of Foreign Exchange Management (Borrowing and Lending in Rupees) Regulations, 2000..." Based on this guideline, what is the restriction for PIO/OCI students?

(A) They are not eligible for any educational loans in India.
(B) They are eligible for loans for studies both in India and abroad.
(C) They are eligible for loans only if a parent is a resident Indian.
(D) They are eligible for loans for pursuing studies in India only.

Ans :

(D) They are eligible for loans for pursuing studies in India only.
The provided text specifies a clear condition for providing educational loans to students who are Persons of Indian Origin (PIO) or Overseas Citizens in India (OCI). While they are eligible applicants, the financial assistance in the form of a loan can be considered only for the purpose of pursuing their studies within India, not for studies abroad.

May/June 2019

52. What is the margin requirement for an educational loan of ₹6 lakh for studies in India and for studies abroad, respectively?

(A) Nil for both
(B) 5% and 15%
(C) 10% and 20%
(D) 15% and 5%

Ans :

(B) 5% and 15%
The margin requirements for educational loans are tiered based on the loan amount. For loans above ₹4 lakh and up to ₹7.5 lakh, a specific margin is mandated. For studies within India, the margin requirement is 5% of the expenses. For studies abroad, a higher margin of 15% is required to cover additional risks.

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Oct/Nov 2006

53. Match the educational loan amount in List-I with the corresponding security requirement in List-II.

List-I (Loan Amount)

P. Up to ₹4 lakh

Q. Above ₹4 lakh and up to ₹7.5 lakh

R. Above ₹7.5 lakh

List-II (Security Requirement)

1. Parent(s)/guardian as joint borrower(s) along with suitable third-party guarantee.
2. Parent(s)/guardian to be joint borrower(s). No other security required.
3. Parent(s) as joint borrower(s) and tangible collateral security.

(A) P-1, Q-2, R-3

(B) P-3, Q-1, R-2

(C) P-2, Q-1, R-3

(D) P-2, Q-3, R-1

Ans :

(C) P-2, Q-1, R-3

Security norms for educational loans are structured in tiers. For loans up to ₹4 lakh, only the parent/guardian as a joint borrower is required. For loans from above ₹4 lakh up to ₹7.5 lakh, a third-party guarantee is added. For loans exceeding ₹7.5 lakh, tangible collateral security is typically required in addition to the parent being a joint borrower.

May/June 2021

54. A meritorious student secures admission to an engineering college in India and applies for an educational loan of ₹7 lakh. As per the IBA model scheme guidelines, what would be the applicable margin and security stipulation?

(A) No margin; Parent as joint borrower only.

(B) 15% margin; Parent as joint borrower and tangible collateral security.

(C) 5% margin; Parent as joint borrower only.

(D) 5% margin; Parent as joint borrower and a suitable third-party guarantee.

Ans :

(D) 5% margin; Parent as joint borrower and a suitable third-party guarantee.

The loan amount of ₹7 lakh falls in the slab of 'above ₹4 lakh and up to ₹7.5 lakh'. For this slab, the margin for inland studies is 5%. The security requirement is for the parent(s) to be joint borrower(s) and for a suitable third-party guarantee to be provided to the bank.

Oct/Nov 2010

55. What is the standard repayment holiday or moratorium period for an educational loan?

(A) The course period + 1 year

(B) The course period only

(C) The course period + 6 months

(D) The course period + 2 years

Ans :

(A) The course period + 1 year

To allow the student time to find employment after completing their studies, a moratorium period is provided before the Equated Monthly Instalments (EMIs) begin. The standard repayment holiday is defined as the full duration of the course period plus an additional one year after the completion of the course, during which only simple interest may be serviced.

May/June 2005

56. For a vehicle loan, what is the maximum permissible Loan to Value (LTV) ratio for a car with an 'on road price' of more than ₹10 lakh?

(A) 75% of 'on road price'

(B) 80% of 'on road price'

(C) 85% of 'on road price'

(D) 90% of 'on road price'

Ans :

(B) 80% of 'on road price'

The Loan to Value (LTV) ratio for vehicle loans is tiered. For cars with an on-road price up to ₹10 lakh, the maximum LTV is 85%. However, for higher-value cars with an on-road price above ₹10 lakh, the maximum permissible LTV ratio is stipulated at 80%, meaning the borrower must contribute a higher margin.

Oct/Nov 2022

57. In the case of a vehicle loan, the purchased vehicle must be comprehensively insured. The insurance cover should be for the market value or at least what percentage above the loan amount outstanding, whichever is higher?

(A) 5%

(B) 15%

(C) 20%

(D) 10%

Ans :

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(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; the credit risk of a loan always stays with the lending bank. Reason (R) correctly explains why; refinance is primarily a liquidity management tool that provides funds to the bank. It does not act as a guarantee or risk transfer mechanism for the original loan, so the bank remains responsible for any default.

Oct/Nov 2020

41. Which of the following is NOT a parameter typically considered during the assessment of a loan proposal's viability and the borrower's creditworthiness?
(A) The brand of computer systems used in the borrower's office.
(B) The borrower's CIBIL report and the RBI List of defaulters.
(C) The technical feasibility and commercial viability of the proposed business.
(D) The experience, competence, and profile of the promoters/management.

Ans :

(A) The brand of computer systems used in the borrower's office.
The assessment of a loan proposal involves a thorough evaluation of factors that impact repayment capacity and risk. This includes the promoters' background, project feasibility, financial health, and credit history (CIBIL). The specific brand of office equipment like computers is irrelevant to this fundamental creditworthiness assessment, unless it is the asset being financed.

May/June 2022

42. One of the purposes of a regular inspection of a borrower's business and assets is to verify that the borrower has not:
(A) Increased production levels beyond projections.
(B) Acquired or disposed of any asset without the bank's consent.
(C) Hired new employees without informing the bank.
(D) Paid salaries to its staff on time.

Ans :

(B) Acquired or disposed of any asset without the bank's consent.
Regular inspection serves multiple monitoring purposes beyond just checking stock. One critical objective is to ensure that the asset base, which may form part of the bank's security or impact the business's operational capacity, remains intact. Therefore, inspections help verify that the borrower has not sold, transferred, or acquired significant assets without the bank's required permission.

Oct/Nov 2023

43. How are term loans typically disbursed, and how does this differ from working capital loans like cash credit?
(A) Term loans are running accounts, while working capital loans are disbursed in instalments.
(B) Both term loans and working capital loans are disbursed in a single lumpsum payment.
(C) Term loans are disbursed directly to suppliers, while working capital is a running account for deposits and withdrawals.
(D) Term loans are disbursed to the borrower's savings account, while working capital is given as cash.

Ans :

(C) Term loans are disbursed directly to suppliers, while working capital is a running account for deposits and withdrawals.
Term loans are meant for acquiring specific assets and are usually disbursed in one or more instalments directly to the suppliers of goods or services. In contrast, working capital facilities like cash credit or overdraft are revolving or running accounts, permitting the customer to deposit and withdraw funds as needed within the sanctioned limit.

May/June 2016

44. A bank's Operating Manual for Loans and Advances is primarily based on which of the following?
1. The regulatory and legal framework.
2. The bank's own loan policy and risk appetite.
3. The universal principles of credit.
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only

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CHAPTER 25

Types of Collaterals and Their Characteristics

May/June 2011

1. Which of the following is NOT considered a major requisite of a good and acceptable security for a bank loan?
   (A) The borrower should have a good and clear title to the asset.
   (B) The asset must be a high-appreciation, high-fluctuation asset to maximize potential recovery value.
   (C) The asset's market value should be easily and accurately ascertainable.
   (D) The security should be durable for a reasonable period and easily storable, especially in case of pledge.

   Ans :

   (B) The asset must be a high-appreciation, high-fluctuation asset to maximize potential recovery value.
   An ideal security should have a stable value and be free from wide price fluctuations. High volatility increases the risk for the bank, as the asset's value could drop significantly, eroding the security cover. Therefore, assets with stable prices are preferred over those with high volatility, even if they have high appreciation potential, to ensure consistent and reliable collateral value.

Oct/Nov 2024

2. Consider the following statements regarding the effectiveness of a security:
   1. The security should be easily and freely transferable without complex legal formalities.
   2. The ownership of the asset by the borrower should be absolute and free from encumbrances.
   3. Assets like partly paid shares are considered ideal securities due to their future call potential.

   Which of the statements given above are correct?
   (A) 1 and 2 only
   (B) 2 and 3 only
   (C) 1 and 3 only
   (D) 1, 2 and 3

   Ans :

   (A) 1 and 2 only
   A good security must be easily transferable and the borrower's ownership must be absolute and unencumbered. However, partly paid shares are not considered ideal securities because they carry a liability for future calls, which the bank might have to pay. This attached liability makes them less desirable as collateral, contradicting the principle of a security being free from liabilities.

May/June 2005

3. A secured loan is primarily granted based on which of the following?
   (A) The personal integrity and creditworthiness of the customer alone.
   (B) The guarantee provided by a government agency for the full loan amount.
   (C) The bank's confidence in the borrower's future financial strength, supported by a charge over acceptable assets.
   (D) The borrower's past transaction history with the bank, without any tangible asset backing.

   Ans :

   (C) The bank's confidence in the borrower's future financial strength, supported by a charge over acceptable assets.
   A secured loan is not granted merely on confidence in the borrower's future solvency but is fundamentally based on obtaining a charge over acceptable assets. This allows the banker to sell the charged property and recover the dues in the event of the borrower's failure to repay, thereby mitigating the credit risk associated with the lending activity.

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of default". Which of the following actions might this trigger?

1. An increase in the rate of interest charged on the loan.
2. Ordering a special stock audit.
3. Recalling the loan if the violation is serious.
4. Increasing the periodicity of submission of statements.

(A) 1 and 3 only
(B) 1, 2, 3 and 4
(C) 1, 2 and 3 only
(D) 2 and 4 only

Ans :

(B) 1, 2, 3 and 4
An event of default gives the bank the right to initiate several corrective or protective measures. Depending on the severity and nature of the covenant breach, the bank can trigger actions such as increasing the interest rate, demanding more frequent submission of statements, commissioning a special stock audit, or, in serious cases, recalling the entire loan.

Oct/Nov 2008

33. Based on the following information regarding QIS returns, what is the submission deadline for the QIS II form?
"Scrutiny of QIS Returns I, II, III should cover: (a) QIS I (to be submitted at least one week before the commencement of quarter to which it relates)... (b) QIS II (to be submitted within six weeks from the close of quarter to which it relates)... (c) QIS III (to be submitted within one month of close of the Half-year to which it relates)"
(A) At least one week before the start of the quarter.
(B) Within one month from the close of the half-year.
(C) Within six weeks from the close of the quarter.
(D) Within ten days from the close of the quarter.

Ans :

(C) Within six weeks from the close of the quarter.
The provided text clearly specifies the submission timelines for different forms of the Quarterly Information System (QIS). For QIS II, which deals with comparing actual performance with earlier estimates for a quarter, the deadline is explicitly stated as "within six weeks from the close of quarter to which it relates," allowing time for data compilation.

May/June 2006

34. In the Quarterly Information System (QIS) for monitoring large credits, a variance beyond what percentage between actual and estimated figures typically requires a satisfactory explanation from the borrower?
(A) $\pm 5\%$
(B) $\pm 15\%$
(C) $\pm 20\%$
(D) $\pm 10\%$

Ans :

(D) $\pm 10\%$
The QIS is a tool to compare a borrower's actual performance against their projections. A significant deviation flags a potential issue. While the exact percentage can be set by the bank, a variance beyond plus or minus 10% between the actual figures reported in QIS II and the estimates given earlier is generally considered the threshold that requires a satisfactory explanation.

Oct/Nov 2017

35. The Central Repository of Information on Large Credits (CRILC) was created by the RBI. What is the current reporting threshold for exposure (both fund and non-fund based) to a single borrower for inclusion in the CRILC-Main report?
(A) ₹50 million
(B) ₹10 million
(C) ₹100 million
(D) ₹500 million

Ans :

(A) ₹50 million
The CRILC framework is designed to help banks monitor large credit exposures. While the initial threshold was higher, the reporting threshold was subsequently changed. Currently, banks are required to report data on all borrowers having an aggregate exposure (both fund and non-fund based) of ₹50 million and above to the CRILC system.

May/June 2008

36. What is the reporting frequency for the CRILC-Main Report and the report on instances of default by borrowers, respectively?
(A) Weekly and Monthly
(B) Monthly and Weekly

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Primary security is defined as the asset created out of the bank finance or the main asset against which the loan is granted, such as stocks of goods for a working capital loan. Collateral security, on the other hand, is an additional security provided by the borrower or a third party to further secure the loan, like a residential property.

Oct/Nov 2017

8. Under current legal frameworks, what is the appropriate forum for a bank to file a recovery suit if the outstanding loan amount is ₹25 lakh against a mortgaged property?

(A) The Debt Recovery Tribunal (DRT), as the amount due is ₹20 lakh or above.
(B) The Civil Court, as the amount is below the threshold for specialized tribunals.
(C) The Supreme Court, as it involves a dispute over immovable property.
(D) The bank can directly sell the property under the SARFAESI Act without any court intervention, regardless of the amount.

Ans :

(A) The Debt Recovery Tribunal (DRT), as the amount due is ₹20 lakh or above.
For recovery of debts, banks approach different legal forums based on the amount. If the amount due is less than ₹20 lakh, a suit is filed in a civil court. However, for amounts of ₹20 lakh and above, the case is filed before the Debt Recovery Tribunal (DRT), which is a specialized body for such matters.

May/June 2014

9. What is considered a primary advantage of accepting land and buildings as security for a loan?

(A) The value of land and buildings is self-liquidating in nature during the economic cycle.
(B) The creation of a mortgage charge is inexpensive and does not involve legal costs.
(C) The value of land and buildings generally increases with time due to scarce availability.
(D) The title of the owner can be ascertained easily without any complex verification.

Ans :

(C) The value of land and buildings generally increases with time due to scarce availability.
The main advantage of land and building as security is its tendency to appreciate in value over time. As the value of money falls and development increases, the value of land, being a scarce resource, invariably rises. This appreciation enhances the security cover for the bank, unlike many other assets that depreciate over their useful life.

Oct/Nov 2020

10. Which of the following statements regarding the disadvantages of accepting land and buildings as security is incorrect?

(A) The security is highly liquid and can be realized quickly at its anticipated value in any market condition.
(B) Ascertaining a perfect and marketable title can be complex due to succession laws and incomplete land records.
(C) The process of creating a charge through mortgage can be costly due to stamp duty and registration charges.
(D) The marketability and value of a building can be negatively affected if it falls under the purview of the Rent Control Act.

Ans :

(A) The security is highly liquid and can be realized quickly at its anticipated value in any market condition.
One of the significant disadvantages of land as security is that it is difficult to realise. Land is not easily and quickly realisable due to a lack of a ready market. Selling the property may take months, and if the market is unfavorable, it might fetch a price lower than what was anticipated, making it an illiquid asset.

May/June 2007

11. To verify the flow of title and ownership history of an immovable property being offered as mortgage, what document does a bank typically call for, covering a prescribed period of thirty years?

(A) Encumbrance Certificate
(B) Property Tax Receipts
(C) Lawyer's Report
(D) Parent Documents

Ans :

(D) Parent Documents
To ascertain the flow of title over a long duration, banks call for parent documents. These are the preceding title deeds that trace the history of ownership of the property. Typically, banks

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amount is further capped at an absolute limit of ₹20 lakh. The employee is eligible for the amount that is lower of these two calculations.

Oct/Nov 2012

45. For guarantees issued by banks on behalf of stockbrokers for capital market operations, what are the prescribed uniform margin and minimum cash margin requirements?
(A) A uniform margin of 50% and a minimum cash margin of 25%.
(B) A uniform margin of 25% and a minimum cash margin of 10%.
(C) A uniform margin of 40% and a minimum cash margin of 20%.
(D) A uniform margin of 50% with no specific requirement for a cash margin.

Ans :

(A) A uniform margin of 50% and a minimum cash margin of 25%.
A uniform margin of 50% applies to all advances, financing of IPOs, and issue of guarantees related to capital market operations. For guarantees specifically, there is an additional stipulation that a minimum cash margin of 25% must be maintained within the overall 50% margin, ensuring a portion of the collateral is highly liquid.

May/June 2005

46. For banks extending finance to stockbrokers for the purpose of margin trading, what is the minimum margin that must be maintained on the funds lent?
(A) 25%
(B) 50%
(C) 40%
(D) 75%

Ans :

(B) 50%
The guidelines for bank finance for margin trading are very specific regarding the risk management aspect. A minimum margin of 50 percent must be maintained on the funds that the bank lends to the stockbroker for this purpose. The bank must also have a system to monitor and maintain this margin on an ongoing basis.

Oct/Nov 2020

47. When granting an advance against the security of mutual fund units, the amount of the advance should be linked to what value?
(A) The face value of the units.
(B) The original purchase price of the units.
(C) The Net Asset Value (NAV) plus any accrued dividends.
(D) The Net Asset Value (NAV)/repurchase price or the market value, whichever is less.

Ans :

(D) The Net Asset Value (NAV)/repurchase price or the market value, whichever is less.
To ensure prudent lending, the loan amount against mutual fund units should not be based on their face value, which is often nominal. Instead, the advance must be linked to the current realizable value, which is determined by the lower of the unit's Net Asset Value (NAV), its repurchase price offered by the fund, or its prevailing market price if listed.

May/June 2018

48. Which of the following is considered a significant advantage of accepting listed debentures as security compared to equity shares?
(A) They are not subject to violent price fluctuations as their price is mainly a function of market interest rates.
(B) Their prices are subject to violent fluctuations, offering high appreciation potential.
(C) They are bearer instruments and therefore do not require any transfer formalities.
(D) They rank lower in priority to shares in case of the company's liquidation.

Ans :

(A) They are not subject to violent price fluctuations as their price is mainly a function of market interest rates.
Unlike equity shares, whose prices are driven by market demand, company performance, and sentiment, the price of debentures (especially fixed-rate ones) is primarily influenced by prevailing market interest rates. This makes their value more stable and less subject to the violent fluctuations often seen in the stock market, which is an advantage for collateral valuation.

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P. Technological Obsolescence
Q. Seasonal Utility
R. Intermediary Goods
S. Natural Durability

List-II (Example)
1. Woolens, Raincoats
2. Chemical raw materials, Food grains
3. Integrated Circuits, Gear boxes
4. Pagers, Basic Mobile Handphones

(A) P-4, Q-1, R-3, S-2
(B) P-3, Q-2, R-4, S-1
(C) P-4, Q-3, R-1, S-2
(D) P-1, Q-4, R-2, S-3

Ans :

(A) P-4, Q-1, R-3, S-2
Technological obsolescence affects items like Pagers and Basic Mobile Handphones. Seasonal utility is a characteristic of goods like Woolens and Raincoats. Intermediary goods are components like Integrated Circuits and Gear boxes used in other products. Natural durability relates to the consumable period of items like chemical raw materials and food grains.

May/June 2010

17. The 'Chemical Nature' of a good as security is primarily concerned with its:
(A) Ability to withstand physical impact or force without breaking.
(B) Stability and resistance to degradation from environmental factors like air and moisture.
(C) Continued usefulness and demand despite innovations and technological improvements.
(D) Appeal to customer preferences based on current fashion and style trends.

Ans :

(B) Stability and resistance to degradation from environmental factors like air and moisture.
The characteristic 'Chemical Nature' in the context of collateral is defined as the good's property of being inert or reactive to the atmosphere. This characteristic is crucial because reactivity to air or moisture can lead to disintegration or chemical changes, thereby reducing the value of the security over time.

Oct/Nov 2011

18. Which of the following is a significant disadvantage or risk associated with accepting goods as security for a bank loan?
(A) A fraudulent borrower may manipulate stock statements, and verifying the quality and quantity of all items, such as contents of sealed tins, is often impractical.
(B) The legal process of creating a charge on goods, which is always more costly and complex than a mortgage on real estate.
(C) Goods typically have a very limited secondary market and are difficult to sell quickly in the event of a borrower default.
(D) The value of all types of goods is assumed to be extremely stable and not subject to any significant price fluctuations.

Ans :

(A) A fraudulent borrower may manipulate stock statements, and verifying the quality and quantity of all items, such as contents of sealed tins, is often impractical.
A major risk in lending against goods is the possibility of fraud or dishonesty by the borrower. It is often not feasible for a banker to physically verify the contents of every single package or tin. A borrower could easily misrepresent the quantity, quality, or even the nature of the goods in the stock statements to inflate the security value.

May/June 2024

19. In the context of advances against goods, what is the key difference between a charge created by 'pledge' and one created by 'hypothecation'?
(A) Pledge is used for immovable property, while hypothecation is used for movable goods.
(B) In a pledge, the title to the goods is transferred to the bank, while in hypothecation, the title remains with the borrower.
(C) In a pledge, the possession of the goods is transferred to the bank, while in hypothecation, possession remains with the borrower.
(D) Pledge applies to 'open cash credit', while hypothecation applies to 'key cash credit'.

Ans :

(C) In a pledge, the possession of the goods is transferred to the bank, while in hypothecation, possession remains with the borrower.
The fundamental distinction lies in the possession of the goods. In a pledge (like key cash credit), the borrower transfers possession of the goods to the lender (bank). In hypothecation (like open

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and reserves. The lower of these two calculated amounts is the applicable limit.

Oct/Nov 2022

36. If a bank's net worth is ₹1,000 crore, what is the maximum permissible direct investment in shares and VCFs based on regulatory guidelines?
(A) ₹400 crore
(B) ₹600 crore
(C) ₹100 crore
(D) ₹200 crore

Ans :

(D) ₹200 crore
The guidelines specify two limits. The overall capital market exposure is capped at 40% of net worth (₹400 crore in this case). However, a sub-limit applies to direct investments in shares, convertible bonds / debentures, units of equity-oriented mutual funds and all exposures to Venture Capital Funds (VCFs). This sub-limit is 20% of the bank's net worth. Therefore, the maximum permissible direct investment would be 20% of ₹1,000 crore, which is ₹200 crore.

May/June 2025

37. As per RBI guidelines for a bank on a 'Solo Basis', what are the prescribed ceilings for its aggregate capital market exposure and its direct investment exposure, respectively?
(A) 20% of its net worth and 10% of its net worth
(B) 50% of its net worth and 25% of its net worth
(C) 40% of its net worth and 20% of its net worth
(D) 40% of its total assets and 20% of its total assets

Ans :

(C) 40% of its net worth and 20% of its net worth
RBI has stipulated clear prudential limits on capital market exposure calculated on the bank's net worth as of March 31 of the previous year. The total aggregate exposure (fund and non-fund based) must not exceed 40% of its net worth. Within this overall ceiling, there is a sub-limit for direct investments which must not exceed 20% of its net worth.

Oct/Nov 2019

38. What is the general guideline for banks regarding granting advances against the security of partly paid shares?
(A) No advance shall be granted against partly paid shares.
(B) Advances can be granted with a higher margin of 75%.
(C) Advances can be granted only if the shares are held in dematerialised form.
(D) Advances are permitted if the borrower provides an undertaking to pay future calls.

Ans :

(A) No advance shall be granted against partly paid shares.
The guidelines are explicit on this matter. Banks are prohibited from granting any advance against the security of partly paid shares. This is because such shares carry a future liability for calls, which would devolve upon the bank if the borrower defaults, creating an additional and uncertain financial burden for the lender.

May/June 2013

39. For advances against shares/debentures held in dematerialised form, what specific action should a bank take to secure its interest?
(A) Insist on converting the shares to physical form for the duration of the loan.
(B) Obtain an unconditional and irrevocable Power of Attorney from the borrower.
(C) Take a separate insurance policy to cover the market risk of the shares.
(D) Ensure the securities are pledged and blocked in favor of the lending bank within the depository system.

Ans :

(D) Ensure the securities are pledged and blocked in favor of the lending bank within the depository system.
For dematerialised securities, the depository system provides a specific mechanism for creating a pledge. The bank should ensure this facility is used, whereby the borrower's securities are blocked in favor of the bank. This prevents the borrower from selling them and allows the bank to invoke the pledge and get the shares transferred to its name upon default.

Oct/Nov 2007

40. According to RBI guidelines, what is the maximum loan amount that the banking system can grant to an individual against the security of shares and other specified securities held in dematerialised form?
(A) ₹20 lakh
(B) ₹10 lakh

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official records like stock registers. All observations, discrepancies, and findings should be documented in the bank's internal inspection report. Any unsatisfactory features can then be formally communicated to the borrower in writing by the bank.

Oct/Nov 2021

24. Regarding a bank's right to sell the security in case of default, what is the key legal difference between pledged goods and hypothecated goods?

(A) The bank can sell hypothecated goods without court intervention under the SARFAESI Act, and can sell pledged goods after giving reasonable notice under the Indian Contract Act.

(B) Pledged goods can only be sold through a public auction, while hypothecated goods can be sold privately.

(C) The bank needs a court order to sell pledged goods, but can sell hypothecated goods immediately upon default without any notice.

(D) The sale of pledged goods is governed by the Sale of Goods Act, while the sale of hypothecated goods is governed by the Transfer of Property Act.

Ans :

(A) The bank can sell hypothecated goods without court intervention under the SARFAESI Act, and can sell pledged goods after giving reasonable notice under the Indian Contract Act.

The legal recourse differs. For hypothecated goods, the SARFAESI Act, 2002, empowers the bank to take possession and sell the security without court intervention. For pledged goods, Section 176 of the Indian Contract Act grants the pledgee (bank) the right to sell the goods after giving the pledgor a reasonable notice of the intended sale.

May/June 2008

25. A document of title to goods, as defined by the Sale of Goods Act, primarily serves as:

(A) A guarantee of the quality and quantity of the goods mentioned within.

(B) A symbol of the goods, allowing transfer of constructive possession and control through the document itself.

(C) A negotiable instrument that provides the holder a title free from all defects.

(D) A proof of ownership that is equivalent to a registered sale deed.

Ans :

(B) A symbol of the goods, allowing transfer of constructive possession and control through the document itself.

The legal definition states that the document is proof of possession or control and authorizes the holder to transfer or receive the goods. This means the document represents the goods themselves. Its delivery or endorsement is treated as the symbolic delivery of the goods, transferring constructive possession and the right to receive them, which is its core function.

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Oct/Nov 2023

26. A key characteristic of documents of title to goods is that they are considered 'quasi negotiable' instruments. What does this imply?

(A) They can only be transferred through a registered legal deed.

(B) A bona fide transferee can be affected by defects in the title of the transferor.

(C) A transferee for value receives a title that is better than the transferor's title.

(D) They are fully negotiable, and the holder in due course is protected against all prior claims.

Ans :

(B) A bona fide transferee can be affected by defects in the title of the transferor.

Unlike fully negotiable instruments (like a cheque), where a holder in due course gets a title free from defects, documents of title to goods are 'quasi negotiable'. This means a transferee, even if they are bona fide and have given value, cannot acquire a better title than what the transferor had. If the transferor's title is defective, the defect passes to the transferee.

May/June 2017

27. Which of the following is NOT an example of a document of title to goods?

(A) Bill of Lading

(B) Warehouse-keeper's Certificate

(C) Warehouse-keeper's Non-transferable Receipt

(D) Railway Receipt

Ans :

(C) Warehouse-keeper's Non-transferable Receipt

cash credit), the borrower retains possession of the goods while creating a charge in favor of the bank. In both cases, ownership remains with the borrower.

Oct/Nov 2008

20. Which of the following is an essential precaution a banker must take when advancing against hypothecated goods?

(A) Ensure the goods are stored in the bank's own premises for better control.

(B) Transfer the title of the goods into the bank's name immediately upon sanctioning the loan.

(C) Restrict such advances only to non-perishable goods like gold and silver.

(D) Obtain a written undertaking from the borrower that the goods are not and will not be charged to any other creditor.

Ans :

(D) Obtain a written undertaking from the borrower that the goods are not and will not be charged to any other creditor.

Since possession of hypothecated goods remains with the borrower, there is a risk of double financing. To mitigate this, a crucial precaution for the banker is to obtain a written undertaking, usually in the loan agreement, that the goods are not already charged to another lender and will not be so charged as long as the debt to the bank exists.

May/June 2006

21. As per banking norms for credit monitoring, a stock audit should be conducted by the lending bankers at least once a year for borrowal accounts enjoying what minimum level of fund-based and non-fund based working capital facilities?

(A) Above ₹10 crore

(B) Above ₹1 crore

(C) Above ₹5 crore

(D) Above ₹25 crore

Ans :

(C) Above ₹5 crore

Stock audit is an effective credit monitoring tool. For borrowal accounts that have been sanctioned fund-based and non-fund based working capital facilities above a certain cut-off limit, which is stated as ₹5 crore, the lending bank is required to conduct a stock audit at least once every year to assess the inventory and receivables.

Oct/Nov 2013

22. What is the standard principle for the valuation of stock of goods when they are held as security for a bank loan?

(A) On the basis of cost price or market price, whichever is less.

(B) On the basis of market price or cost price, whichever is higher, to maximize drawing power.

(C) On the basis of distress sale value to ensure quick recovery.

(D) On the basis of the original purchase invoice price, irrespective of current market value.

Ans :

(A) On the basis of cost price or market price, whichever is less.

This is a standard accounting and banking prudence principle. Valuing the stock at the lower of cost price or market price ensures a conservative and realistic assessment of the security's value. It prevents overvaluation of the stock, especially when market prices have fallen below the original cost, thereby protecting the bank's margin and security position.

May/June 2015

23. During a surprise inspection of a borrower's godown, the bank's inspecting official suspects that the stock records (e.g., stock register) have been inflated. What is the appropriate immediate action for the official to take at the borrower's premises?

(A) Seize the borrower's stock registers and accounting records immediately.

(B) Note the observations and verify them with other records, but refrain from making any remarks on the borrower's official records.

(C) Make corrective remarks and sign on the borrower's official stock register to document the discrepancy.

(D) Verbally warn the borrower's staff about the potential legal consequences of the discrepancy.

Ans :

(B) Note the observations and verify them with other records, but refrain from making any remarks on the borrower's official records.

The correct procedure during a stock inspection is to observe and verify. The inspecting official should not put any remarks on the borrower's

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(C) Both 1 and 2
Both statements are correct. The process of assigning a life insurance policy is straightforward and gives the bank a strong legal claim. However, insurance contracts are based on the principle of utmost good faith. If the insured person made any material misrepresentation or non-disclosure when taking the policy, the insurer can declare the contract void, jeopardizing the bank's security.

Oct/Nov 2014

32. Generally, certain types of life insurance policies are not considered acceptable as security by banks due to attached conditions. Which of the following policy types falls into this category?
(A) Whole Life Policy
(B) Money Back Policy
(C) Term Assurance Policy
(D) Children Endowment Policy

Ans :

(D) Children Endowment Policy
Banks are generally cautious about accepting certain policies. Children endowment policies, children deferred policies, and policies taken for specific purposes like estate duty are often not accepted as security. This is because they have specific conditions or beneficiaries (like a child upon attaining majority) that can complicate the bank's ability to realize the security.

May/June 2021

33. What is the legal effect on the nomination of a life insurance policy when the policy is assigned to a bank as security for a loan?
(A) The nominee must co-sign the assignment documents for it to be valid.
(B) The nominee's rights are given priority over the assignee's (bank's) rights.
(C) The nomination is automatically cancelled upon the registration of the assignment.
(D) The nomination remains active but is temporarily suspended until the loan is repaid.

Ans :

(C) The nomination is automatically cancelled upon the registration of the assignment.
An assignment of a life insurance policy legally overrides any prior nomination. Once the policy is assigned in favor of the bank and the assignment is registered with the insurance company, the rights of the nominee are automatically cancelled. The assignee (the bank) becomes legally entitled to receive the policy proceeds.

Oct/Nov 2010

34. When a bank gives an advance against shares held in dematerialised form, what is the nature of the charge created on these shares?
(A) Mortgage
(B) Assignment
(C) Lien
(D) Pledge

Ans :

(D) Pledge
The nature of the charge created on shares, whether in physical or dematerialised form, is a pledge. For dematerialised shares, this is effected through the depository system where the shares are blocked or marked in favor of the lending bank. This gives the bank the rights of a pledgee, including the right to sell upon default.

May/June 2009

35. According to Section 19(2) of the Banking Regulation Act, 1949, a banking company cannot hold shares in any company (as pledgee, mortgagee, or owner) exceeding a specific limit. This limit is defined as:
(A) 30% of the paid-up share capital of that company or 30% of the bank's own paid-up share capital and reserves, whichever is less.
(B) 30% of the paid-up share capital of that company or 30% of the bank's net worth, whichever is less.
(C) 20% of the paid-up share capital of that company or 20% of the bank's own paid-up share capital and reserves, whichever is more.
(D) 40% of the paid-up share capital of that company, irrespective of the bank's own capital.

Ans :

(A) 30% of the paid-up share capital of that company or 30% of the bank's own paid-up share capital and reserves, whichever is less.
This is a critical statutory restriction. Section 19(2) of the B.R. Act, 1949, imposes a dual ceiling. A bank's holding in a single company is capped at 30% of that company's paid-up share capital. Simultaneously, this holding is also capped at 30% of the bank's own paid-up share capital

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require these documents for a period of thirty years to ensure that there is a clear and unbroken chain of title leading to the proposed mortgagor.

Oct/Nov 2015

12. What is the primary purpose of obtaining a 'Search Report' from the Registrar of Companies?
(A) To ascertain the flow of title over the last thirty years.
(B) To determine if any prior charge subsists on the property when it is owned by a company.
(C) To confirm that the proposed mortgagor has paid all property taxes.
(D) To verify that no encumbrance exists on the property for a period of thirteen years.

Ans :

(B) To determine if any prior charge subsists on the property when it is owned by a company.
A Search Report, which includes a certificate of registration of charges from the Registrar of Companies, is required specifically when the immovable property belongs to a company. Its purpose is to ascertain if any charge already subsists on that property, which is crucial for the bank to assess its security position.

May/June 2022

13. When valuing an immovable property for a loan, which valuation basis is generally mandated to be used by the bank's approved engineer or valuer?
(A) Historical cost basis
(B) Replacement value basis
(C) Conservative, realistic, and forced sale basis
(D) Fair market value perception only

Ans :

(C) Conservative, realistic, and forced sale basis
When an advance is secured by an immovable property, the valuation must be conservative, realistic, and conducted on a forced sale basis. This approach provides the bank with a more prudent and reliable estimate of the amount it can realize from the property if it has to sell it under distress conditions following a borrower's default.

Oct/Nov 2006

14. In the context of a leasehold property offered as security, what is the most critical factor a banker must consider?
(A) The identity of the original freehold owner of the property.
(B) The amount of annual ground rent paid to the freehold owner.
(C) The possibility of the property being converted to freehold in the future.
(D) The unexpired period of the lease in relation to the loan's repayment tenor.

Ans :

(D) The unexpired period of the lease in relation to the loan's repayment tenor.
For a leasehold property, the leaseholder's rights exist only for a specific period. The most important consideration for the bank is the unexpired period of the lease. The value of the security diminishes as the lease nears its end, and it is crucial to ensure that the loan repayment schedule does not extend beyond this unexpired period.

May/June 2019

15. A borrower approaches a bank for a 15-year term loan, offering a commercial property as security. Upon verification, the bank finds that the property is leasehold, and the lease is set to expire in 12 years. The lease deed contains no onerous covenants. What would be the most prudent course of action for the bank?
(A) Sanction the loan but restrict the repayment tenor to a period not exceeding 12 years.
(B) Reject the loan proposal outright as the property is not freehold.
(C) Sanction the 15-year loan as the property's market value is high.
(D) Sanction the loan for 15 years, subject to the borrower obtaining the freeholder's consent.

Ans :

(A) Sanction the loan but restrict the repayment tenor to a period not exceeding 12 years.
When financing against a leasehold property, the bank must ensure that the loan is fully repaid before the lease expires, as the property reverts to the freehold owner upon expiry. In this case, since the lease expires in 12 years, the bank cannot sanction a 15-year loan. The prudent decision is to structure the loan so that the repayment tenor is within the unexpired lease period.

Oct/Nov 2025

16. Match the characteristic of goods as collateral (List-I) with its appropriate example (List-II).
List-I (Characteristic)

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(C) ₹50 lakh
(D) No specific limit is prescribed.

Ans :

(A) ₹20 lakh
RBI has prescribed a ceiling for loans to individuals against the security of shares, convertible bonds, debentures, and units of equity-oriented mutual funds. If these securities are held in dematerialised (demat) form, the total loan amount from the entire banking system to a single individual should not exceed ₹20 lakh. The limit is lower, at ₹10 lakh, for securities held in physical form.

May/June 2016

41. What are the minimum margin requirements that banks must maintain for advances to individuals against equity shares held in dematerialised form and physical form, respectively?
(A) 50% for dematerialised and 25% for physical
(B) 25% for both dematerialised and physical
(C) 50% for both dematerialised and physical
(D) 25% for dematerialised and 50% for physical

Ans :

(D) 25% for dematerialised and 50% for physical
RBI has stipulated different minimum margins based on the form of the shares. For shares held in dematerialised form, which are easier to manage and pledge, a minimum margin of 25% is required. For shares held in physical form, which carry higher risks related to custody and transfer, a higher minimum margin of 50% must be maintained.

Oct/Nov 2018

42. A borrower, who already has a ₹15 lakh loan against demat shares from another bank, approaches your bank for an additional loan of ₹10 lakh against a large block of demat shares. The stated purpose is to acquire a controlling interest in the company whose shares are being offered. How should the bank proceed?
(A) Sanction the ₹10 lakh loan as it is against marketable demat shares.
(B) Sanction a reduced loan of ₹5 lakh to stay within the overall individual limit.
(C) Reject the proposal as the total borrowing would exceed the ₹20 lakh individual limit and the purpose is not permitted.
(D) Sanction the loan but with a higher margin of 50% due to the speculative purpose.

Ans :

(C) Reject the proposal as the total borrowing would exceed the ₹20 lakh individual limit and the purpose is not permitted.
The proposal violates two key RBI guidelines. First, the total loan from the banking system would become ₹25 lakh (15+10), exceeding the ₹20 lakh ceiling for individuals against demat shares. Second, banks must ensure that advances against shares are not used to enable a borrower to acquire a controlling interest in a company.

Oct/Nov 2024

43. What is the maximum amount of advance an individual can avail from the banking system for the purpose of subscribing to Initial Public Offerings (IPOs)?
(A) ₹5 lakh
(B) ₹20 lakh
(C) ₹10 lakh
(D) 90% of the subscription amount

Ans :

(C) ₹10 lakh
Banks are permitted to grant advances to individuals for subscribing to IPOs. However, there is a specific ceiling on such financing. The total loan amount from the banking system to any single individual for subscribing to IPOs should not exceed the limit of *P*10 lakh. This limit applies to IPOs and Follow-on Public Offers (FPOs).

May/June 2011

44. When a bank finances an employee for purchasing shares of their own company under an Employees Stock Option Plan (ESOP), what is the maximum permissible loan amount?
(A) 100% of the purchase price of the shares.
(B) ₹50 lakh.
(C) 90% of the purchase price of the shares or ₹20 lakh, whichever is higher.
(D) 90% of the purchase price of the shares or ₹20 lakh, whichever is lower.

Ans :

(D) 90% of the purchase price of the shares or ₹20 lakh, whichever is lower.
RBI guidelines provide a specific formula for financing ESOPs. Banks can finance employees to purchase their company's shares up to a maximum of 90% of the purchase price. This

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Documents of title to goods, such as bills of lading, warehouse-keeper's certificates, and railway receipts, are transferable by endorsement or delivery. A non-transferable receipt, by its very nature, is merely an acknowledgement that the goods are being held and does not grant the holder the right to transfer the goods by transferring the document.

Oct/Nov 2005

28. Under the Sale of Goods Act, an unpaid vendor has the 'right of stoppage in transit'. What is the implication of this right for a bank that has advanced money against a document of title to goods?

(A) The bank's claim, as a secured creditor, automatically gets legal priority over the unpaid vendor's claim.
(B) The bank can still obtain delivery of the goods by directly paying the outstanding freight amount to the carrier.
(C) The unpaid vendor must first obtain a specific court order against the carrier before stopping the goods in transit.
(D) If the vendor exercises this right, the carrier will not deliver the goods to the bank, and the bank's security becomes valueless.

Ans :

(D) If the vendor exercises this right, the carrier will not deliver the goods to the bank, and the bank's security becomes valueless.
The unpaid vendor's right of stoppage in transit is a significant risk. If the vendor directs the carrier not to deliver the goods because the buyer (borrower) has not paid, the bank, despite holding the document of title, cannot obtain the goods. This renders the bank's security ineffective and of no value for recovery purposes.

May/June 2020

29. What is the primary purpose of obtaining a 'Trust Receipt' from a borrower?

(A) To acknowledge that the borrower holds goods or sale proceeds in trust for the bank after the bank has released the documents of title without payment.
(B) To create a primary charge of hypothecation on the borrower's current assets.
(C) To serve as a document of title to goods, allowing the bank to take possession at will.
(D) To obtain a guarantee from a third party for the loan taken by the borrower.

Ans :

(A) To acknowledge that the borrower holds goods or sale proceeds in trust for the bank after the bank has released the documents of title without payment.
A trust receipt is used when a bank releases documents of title (or hypothecated goods) to the borrower for sale without receiving payment. The receipt legally binds the borrower to act as a trustee for the bank, holding the goods and any subsequent sale proceeds separately and in trust, to be remitted to the bank.

Oct/Nov 2016

30. When a bank grants an advance against a Life Insurance Policy (LIP), what is the nature of the charge created on this security?

(A) Assignment
(B) Pledge
(C) Hypothecation
(D) Mortgage

Ans :

(A) Assignment
A life insurance policy is an 'actionable claim'. The method of creating a charge on an actionable claim is through assignment. The borrower (policyholder) assigns the rights under the policy to the bank, which gives the bank a perfect legal title to receive the policy money, subject to the terms of the assignment and repayment of the loan.

May/June 2012

31. Consider the following statements regarding advances against Life Insurance Policies (LIPs):

1. A major advantage is that the assignment process is simple and provides the banker with a perfect title.
2. A major disadvantage is that any misrepresentation by the assured can make the policy void under the principle of 'utmost good faith'.

Which of the statements given above is/are correct?

(A) 1 only
(B) 2 only
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

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Oct/Nov 2009

49. A company is prohibited from making a public issue of debentures under which of the following circumstances?

(A) If the company has defaulted for any period on its mandatory dividend payments to its equity shareholders.

(B) If the company's official credit rating has been downgraded by any rating agency in the last six months.

(C) If the company has previously issued debentures without creating a specific and registered charge on its assets.

(D) If the company is in default of interest or principal payment on any non-convertible securities for more than six months.

Ans :

(D) If the company is in default of interest or principal payment on any non-convertible securities for more than six months.

To protect investors, a key regulatory safeguard is in place. An issuer is barred from making a new public issue of debentures if, on the date of filing the offer document, it has an existing default in paying interest or repaying the principal amount for any of its non-convertible securities that has persisted for more than six months.

May/June 2023

50. The assignment of book debts, which are considered actionable claims, in favor of a bank is permitted under the provisions of which Act?

(A) The Transfer of Property Act, 1882

(B) The Indian Contract Act, 1872

(C) The Sale of Goods Act, 1930

(D) The Banking Regulation Act, 1949

Ans :

(A) The Transfer of Property Act, 1882

Book debts are classified as 'actionable claims', which are rights to recover a debt. The legal framework for transferring such claims is provided by the Transfer of Property Act, 1882. Specifically, Section 130 of this Act governs the assignment of actionable claims, outlining the procedure for a valid transfer of the right to receive the debt to the assignee (the bank).

Oct/Nov 2017

51. Which of the following is NOT a recognized mode of financing book debts by a bank?

(A) Factoring

(B) Mortgage

(C) Forfaiting

(D) Overdraft/cash credit against hypothecation

Ans :

(B) Mortgage

Book debts are movable, financial assets (actionable claims). The modes of financing them include factoring (selling receivables to a factor), forfaiting (outright purchase of book debts without recourse), and providing overdraft or cash credit facilities with the book debts charged via hypothecation or assignment. Mortgage is a charge created specifically on immovable property and is not applicable to book debts.

May/June 2014

52. As a general guideline for advances against book debts, what is the typical maximum age of debts that banks consider acceptable as security?

(A) Not more than one month

(B) Not more than twelve months

(C) Not more than six months

(D) Not more than twenty-four months

Ans :

(C) Not more than six months

The age of book debts is a critical factor, as older debts have a higher probability of becoming bad or disputed. As a prudential measure, banks generally stipulate that book debts offered as security should not be more than six months old. Some banks may even adopt a more conservative stance and set the limit at three months.

Oct/Nov 2015

53. When a bank grants a loan against its own term deposit receipt (e.g., a Fixed Deposit), what is the nature of the charge created?

(A) Hypothecation

(B) Mortgage

(C) Assignment

(D) Pledge

Ans :

(D) Pledge

A loan against a term deposit receipt is a loan against a movable asset (the document representing the chose in action). The bank takes possession of the deposit receipt, which is duly discharged by the holder. This act of delivering the movable property (the receipt) as security for

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Free consent is a cornerstone of a valid contract, where parties agree to the same thing in the same sense. Consent is deemed not to be free if it is obtained through coercion (Sec. 15), undue influence (Sec. 16), fraud (Sec. 17), misrepresentation (Sec. 18), or mistake (Sec. 20, 21, and 22), making the contract potentially voidable.

Oct/Nov 2006

9. When consent to an agreement is obtained through undue influence, what is the legal status of the contract?

(A) The contract is void ab initio.
(B) The contract is valid and fully enforceable.
(C) The contract is a voidable contract at the option of the party whose consent was so caused.
(D) The contract is automatically set aside by the court without any party's intervention.

Ans :

(C) The contract is a voidable contract at the option of the party whose consent was so caused.
If consent is induced by undue influence, the agreement becomes a contract that is voidable. This means the aggrieved party, whose consent was unfairly obtained, has the legal right to choose whether to uphold the contract or have it set aside. The court can set it aside absolutely or on specific terms and conditions.

May/June 2019

10. As per Section 11 of the Indian Contract Act, a person is considered competent to enter into a contract if they meet which of the following criteria?

(A) They have attained the age of majority, are of sound mind, and are not disqualified by any law.
(B) They have attained the age of 21, are of sound mind, and are not a government employee.
(C) They are literate, have a permanent income, and are a citizen of India.
(D) They are above 16 years of age, have a guardian's consent, and are not insolvent.

Ans :

(A) They have attained the age of majority, are of sound mind, and are not disqualified by any law.
Section 11 of the Indian Contract Act clearly outlines the three essential conditions for contractual capacity. A person must have reached the age of majority (18 years), must be of sound mind at the time of making the contract, and must not be legally disqualified from contracting by any law they are subject to.

Oct/Nov 2010

11. What is the legal status of an agreement made by a minor, and which landmark case settled this principle?

(A) It is voidable at the option of the minor; settled by Lallan Prasad vs Rahmat Ali.
(B) It is valid if a guardian contracts on their behalf; settled by Dena Bank vs Bhikhabhai.
(C) It is enforceable once the minor attains majority; settled by Sirpur Paper Mills Ltd case.
(D) It is void ab initio; settled by Mohiri Bibi vs Dharmodas Ghose.

Ans :

(D) It is void ab initio; settled by Mohiri Bibi vs Dharmodas Ghose.
According to Section 11 of the Indian Contract Act, a minor is not competent to contract. The principle that an agreement with a minor is completely void from the very beginning (void ab initio) was firmly established by the Privy Council in the landmark case of Mohiri Bibi vs Dharmodas Ghose (1903).

May/June 2005

12. In the context of banking, what is the relationship between a banker and a customer when the bank accepts securities for safe custody, and how does it differ from when a customer deposits money into an account?

(A) Debtor-creditor in both cases.
(B) Bailee-bailor for safe custody; Debtor-creditor for deposits.
(C) Agent-principal for safe custody; Trustee-beneficiary for deposits.
(D) Lessor-lessee for safe custody; Debtor-creditor for deposits.

Ans :

(B) Bailee-bailor for safe custody; Debtor-creditor for deposits.
The banker-customer relationship varies with the transaction. When a customer deposits money, the bank becomes a debtor and the customer a creditor. However, when a bank accepts valuables or securities for safe custody, it acts as a bailee, holding the goods in trust for the customer, who

NODIA

from the rates quoted by the Indian Bullion and Jewellers Association Ltd. (IBJA).

May/June 2010

58. Based on bullet repayment loan guidelines, which of the following loan proposals would be non-compliant?

(A) A loan of ₹1.75 lakh for a period of 15 months with interest payable at maturity.

(B) A loan of ₹1.50 lakh for a period of 12 months with interest payable at maturity.

(C) A loan of ₹2.00 lakh for a period of 9 months with interest payable at maturity.

(D) A loan of ₹2.00 lakh for a period of 12 months with interest payable at maturity.

Ans :

(A) A loan of ₹1.75 lakh for a period of 15 months with interest payable at maturity.

The guidelines for a bullet repayment gold loan state that the period of the loan shall not exceed 12 months from the date of sanction. The proposal for a loan with a 15-month tenor directly violates this condition, even though the loan amount of ₹1.75 lakh is within the permissible limit of ₹2.00 lakh.

Oct/Nov 2011

59. A customer is granted a bullet repayment gold loan of ₹1.5 lakh for 12 months. The bank prescribes a minimum margin of 25%, meaning the Loan-to-Value (LTV) ratio should not exceed 75%. After 8 months, due to a fall in gold prices, the value of the pledged ornaments drops, and the outstanding loan (principal + accrued interest) becomes 80% of the ornament's current value. What is the status of the account?

(A) The account would be classified as a Non-Performing Asset (sub-standard category) immediately.

(B) The account remains standard as the repayment is due only at the end of 12 months.

(C) The bank should ask the customer to pledge more gold to restore the margin.

(D) The bank can only take action after sending a 30-day notice to the borrower.

Ans :

(A) The account would be classified as a Non-Performing Asset (sub-standard category) immediately.

A specific guideline for bullet repayment gold loans states that the account would be classified as a Non-Performing Asset if the prescribed margin is not maintained. In this case, the LTV has breached the 75% norm. Therefore, even though the loan's due date has not arrived, the account is immediately classified as NPA due to the margin shortfall.

May/June 2024

60. What is the primary reason for keeping the tenor of a vehicle loan significantly shorter than the vehicle's total utility life, typically around 3 to 5 years?

(A) The value of a vehicle depreciates quickly, and a shorter tenor ensures the security cover does not deplete rapidly.

(B) Vehicle registration with the RTA expires every 5 years.

(C) Insurance companies do not provide coverage for vehicles older than 5 years.

(D) The borrower's ability to repay is assumed to decline sharply after 5 years.

Ans :

(A) The value of a vehicle depreciates quickly, and a shorter tenor ensures the security cover does not deplete rapidly.

Vehicles are a depreciating asset; their market value falls rapidly with time and use. To ensure that the realizable value of the security (the vehicle) remains higher than the outstanding loan amount throughout the loan's life, banks structure vehicle loans with a shorter tenor. This ensures the loan is repaid faster than the rate at which the security cover depletes.

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commission', this agent undertakes that the third party (e.g., a buyer) will fulfill their obligations, and becomes liable if they default.

Oct/Nov 2007

17. An agency can be terminated under several circumstances. Identify the correct combination of reasons for termination of an agency.

1. The principal revokes his authority.
2. The business of the agency is completed.
3. The agent becomes of unsound mind.

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
A contract of agency can be terminated in several ways. These include an act by the parties, such as the principal revoking authority or the agent renouncing the business. It can also be terminated by the completion of the business for which the agency was created, or by events like the death or insanity of either party.

May/June 2025

18. An agent 'B' is employed to recover ₹1,00,000 from 'C'. 'B' recovers the money, but due to his misconduct in a separate transaction, the money is not recovered from another debtor 'D'. What is 'B' entitled to?

(A) Remuneration for recovering ₹1,00,000 from 'C' but must make good the loss from 'D'.
(B) No remuneration for any of his services.
(C) Full remuneration for all services, but is not liable for the loss from 'D'.
(D) Remuneration for recovering from 'C' and is not liable for the loss from 'D'.

Ans :

(A) Remuneration for recovering ₹1,00,000 from 'C' but must make good the loss from 'D'.
An agent who is guilty of misconduct is not entitled to any remuneration for the part of the business that has been misconducted. However, the agent is still entitled to remuneration for the parts of the business conducted properly. In this scenario, the agent is entitled to payment for recovering the money but must also compensate the principal for the loss.

Oct/Nov 2019

19. In the absence of a contract to the contrary, what right does an agent have regarding the principal's property in his possession?

(A) The right to sell the property to recover his dues.
(B) The right to use the property for his personal benefit.
(C) The right to retain the property until his commission and other dues are paid.
(D) The right to transfer the ownership of the property to a third party.

Ans :

(C) The right to retain the property until his commission and other dues are paid.
An agent has a right of lien on the principal's property. This means the agent is entitled to retain possession of goods, papers, and other property belonging to the principal that he has received, until the amount due to him for commission, disbursements, and services related to that property has been fully paid or accounted for.

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May/June 2009

20. According to Section 148 of the Indian Contract Act, 1872, 'bailment' is defined as the delivery of goods by one person to another for a specific purpose. Who are the parties to this contract?

(A) The person delivering the goods is the 'bailee' and the person receiving them is the 'bailor'.
(B) The person delivering the goods is the 'pawnor' and the person receiving them is the 'pawnee'.
(C) The person delivering the goods is the 'agent' and the person receiving them is the 'principal'.
(D) The person delivering the goods is the 'bailor' and the person receiving them is the 'bailee'.

Ans :

(D) The person delivering the goods is the 'bailor' and the person receiving them is the 'bailee'.
Section 148 defines bailment as the delivery of goods for a purpose, upon a contract that they will be returned or disposed of as directed. The person who delivers the goods is legally termed the 'bailor', and the person to whom the goods are delivered for the specific purpose is termed the 'bailee'.

(D) A proposal requires only acceptance to become a promise, while an invitation to offer solicits offers from others.

The key distinction lies in the intention of the person making the statement. A proposal or offer is a definite expression of willingness to be bound by certain terms, requiring only acceptance to form a contract. In contrast, an invitation to offer, such as asking for a price quotation, is merely an invitation for others to make a proposal.

Oct/Nov 2025

5. Which of the following statements correctly describes the legal requirements for the form of an agreement?

(A) All valid contracts must be in writing and registered to be enforceable in a court of law.

(B) Oral agreements are never considered valid contracts under any circumstances.

(C) While many contracts can be oral, agreements for the sale or mortgage of immovable property must be in writing and registered.

(D) An agreement is only enforceable if it is attested by at least two witnesses, regardless of whether it is oral or written.

Ans :

(C) While many contracts can be oral, agreements for the sale or mortgage of immovable property must be in writing and registered.

Valid contracts can be formed through oral agreements. However, specific laws mandate written form, registration, and attestation for certain transactions to be enforceable. Notably, agreements involving the sale or mortgage of immovable property, and leases, must comply with these formalities. Failure to do so renders the agreement unenforceable in a court of law, even if other contractual elements exist.

May/June 2016

6. In the context of the Indian Contract Act, what is the meaning of 'consideration'?

(A) It is the free consent given by all parties to an agreement.

(B) It means 'something in return' given by one party to another.

(C) It is the lawful object for which the contract is made.

(D) It is the act of one person signifying willingness to do something.

Ans :

(B) It means 'something in return' given by one party to another.

Consideration is a core element of a valid contract and essentially means 'something in return' (quid pro quo). It is the price for the promise. When parties to an agreement give something and get something in return, the agreement gains legal enforceability. It can be an act, an abstinence from acting, or a promise to do either.

Oct/Nov 2018

7. Consider the following statements regarding the rule of consideration:

1. An agreement made out of natural love and affection between parties in a near relation is valid even without consideration, provided it is in writing and registered.
2. A promise to compensate a person who has already voluntarily done something for the promisor is enforceable at law.

Which of the statements is/are correct?

(A) 1 only

(B) 2 only

(C) Both 1 and 2

(D) Neither 1 nor 2

Ans :

(C) Both 1 and 2

Generally, an agreement without consideration is void. However, the Indian Contract Act provides specific exceptions. An agreement is valid if it is written, registered, and made from natural love and affection between close relatives. Similarly, a promise to pay for a past voluntary service rendered to the promisor is also considered a valid and enforceable contract.

May/June 2012

8. According to the Indian Contract Act, consent is considered to be free when it is NOT caused by which of the following combinations of factors?

(A) Coercion, undue influence, fraud, misrepresentation, or mistake.

(B) Offer, acceptance, consideration, or lawful object.

(C) Insolvency, incapacity, illegality, or impossibility.

(D) Proposal, promise, agreement, or enforcement.

Ans :

(A) Coercion, undue influence, fraud, misrepresentation, or mistake.

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CHAPTER 26

Different Modes of Charging Securities

Oct/Nov 2014

1. According to the legal framework governing banking in India, which two primary statutes contain the main provisions for creating a lender's charge on movable and immovable properties, respectively?

(A) The Indian Contract Act, 1872 for immovable properties and the SARFAESI Act, 2002 for movable properties.

(B) The Indian Contract Act, 1872 for most assets and the Transfer of Property Act, 1882 specifically for immovable properties.

(C) The Transfer of Property Act, 1882 for movable properties and the Indian Contract Act, 1872 for immovable properties.

(D) The Companies Act, 2013 for all properties and the Registration Act, 1908 for documentation.

Ans :

(B) The Indian Contract Act, 1872 for most assets and the Transfer of Property Act, 1882 specifically for immovable properties.

The Indian Contract Act, 1872, provides the legal basis for creating charges on most types of assets extended as security to a borrower. However, for immovable properties, the specific provisions for creating charges, such as mortgages, are primarily contained within the Transfer of Property Act, 1882, which governs the transfer and security of such assets.

May/June 2021

2. Under Section 2(h) of the Indian Contract Act, 1872, how is a 'contract' defined?

(A) An agreement enforceable by law.

(B) An agreement made with free consent of the parties.

(C) A proposal that has been accepted, thereby becoming a promise.

(D) A set of reciprocal promises forming consideration for each other.

Ans :

(A) An agreement enforceable by law.

Section 2(h) of the Indian Contract Act, 1872, provides a precise legal definition of a contract. It states that a contract is an agreement that is enforceable by law. This means that for an agreement to be recognized as a contract, it must create legal rights and obligations that a court of law can enforce.

Oct/Nov 2009

3. What are the two fundamental constituents that must be present for a contract to exist?

(A) A written document and registration.

(B) A proposal and a counter-proposal.

(C) An agreement between two or more persons and its enforceability by law.

(D) A lawful object and a lawful consideration.

Ans :

(C) An agreement between two or more persons and its enforceability by law.

A contract is fundamentally composed of two essential elements. First, there must be an agreement, which arises from an offer and its acceptance between two or more parties. Second, this agreement must be legally enforceable, meaning it must create rights and obligations that can be upheld in a court, satisfying conditions like free consent and lawful consideration.

May/June 2007

4. How is a 'proposal' or 'offer' distinguished from an 'invitation to offer'?

(A) A proposal is always in writing, whereas an invitation to offer can be oral.

(B) A proposal is made to a specific person, while an invitation to offer is made to the public at large.

(C) A proposal involves a lawful object, whereas an invitation to offer may not.

(D) A proposal requires only acceptance to become a promise, while an invitation to offer solicits offers from others.

Ans :

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is the bailor, with an obligation to return the specific items.

Oct/Nov 2022

13. As defined under Section 182 of the Indian Contract Act, 1872, who are the 'agent' and the 'principal'?

(A) The agent is the person who lends money, and the principal is the person who borrows it.

(B) The agent is the person who provides a guarantee, and the principal is the person on whose behalf it is given.

(C) The agent is a person employed to act for another, and the principal is the person for whom such act is done.

(D) The agent is a third party in a transaction, and the principal is the one who initiates the contract.

Ans :

(C) The agent is a person employed to act for another, and the principal is the person for whom such act is done.

Section 182 of the Indian Contract Act, 1872, defines the contract of agency. An 'agent' is a person who is employed to perform an act for another or to represent another in dealings with third parties. The 'principal' is the person for whom the agent performs the act or whom the agent represents in these dealings.

May/June 2018

14. Assertion (A): No consideration is necessary to create a contract of agency.

Reason (R): An agent creates contractual relations between the principal and a third party, and the agent's authority is governed by the terms of the agency contract.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

The assertion that no consideration is required to create an agency is a specific exception stated in the law of contract. The reason describes the function of an agent and the nature of an agency contract, which is also true. However, the reason does not explain why consideration is not necessary for forming the agency relationship itself.

Oct/Nov 2016

15. Under Section 189 of the Indian Contract Act, what authority does an agent possess in an emergency?

(A) The authority to do all acts necessary to protect the principal from loss, as a person of ordinary prudence would do.

(B) The authority to terminate the agency contract immediately.

(C) The authority to delegate his duties to a sub-agent without the principal's consent.

(D) The authority to disown any acts done on behalf of the principal that may lead to a loss.

Ans :

(A) The authority to do all acts necessary to protect the principal from loss, as a person of ordinary prudence would do.

Section 189 grants an agent special authority in an emergency. The agent is empowered to take all necessary actions to safeguard the principal's interests and prevent loss. This authority is benchmarked against the actions a person of ordinary prudence would take to protect their own assets under similar circumstances, such as selling perishable goods to avoid spoilage.

May/June 2014

16. In the context of agency, what is a 'Del Credere Agent'?

(A) An agent who works without any remuneration or commission.

(B) An agent who, for extra commission, guarantees the performance of the contract by the third party.

(C) An agent appointed for a specific, single transaction only.

(D) An agent who has the authority to appoint sub-agents.

Ans :

(B) An agent who, for extra commission, guarantees the performance of the contract by the third party.

A del credere agent is a special type of agent who, in addition to their role as a salesperson or broker, also acts as a guarantor. In exchange for an extra remuneration known as a 'del credere

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a debt constitutes a pledge, and the bank exercises the rights of a pledgee.

May/June 2007

54. Under what specific circumstance may a bank consider granting a loan against a term deposit standing in the name of a minor?

(A) Under no circumstances, as a minor lacks contractual capacity.

(B) If the minor has completed 14 years of age and can sign the documents.

(C) If the loan is sought by the guardian for the necessities of the minor, supported by an undertaking.

(D) Only with the prior permission of the competent court.

Ans :

(C) If the loan is sought by the guardian for the necessities of the minor, supported by an undertaking.

While loans to minors are generally void, an exception is made for necessities. A bank may consider granting a loan against a minor's deposit if the guardian seeks the loan specifically for the minor's essential needs (like education or medical expenses) and provides a written undertaking to that effect, confirming the end use of the funds.

Oct/Nov 2006

55. Mr. Sharma, a partner in the firm 'Sharma & Sons', requests a personal loan from a bank. He offers a Fixed Deposit of ₹10 lakh held in the name of the firm 'Sharma & Sons' as security. How should the bank classify and price this loan?

(A) It should be classified as a third-party loan and interest should be charged at the commercial rate.

(B) As a standard personal loan, since the borrower is an individual.

(C) It should not be treated as a third-party loan and can be priced normally.

(D) The loan cannot be granted as a partner cannot pledge the firm's assets for personal use.

Ans :

(A) It should be classified as a third-party loan and interest should be charged at the commercial rate.

The borrower (Mr. Sharma, an individual) is a separate legal entity from the deposit holder (Sharma & Sons, a partnership firm). When a partner takes a loan in his personal capacity against a deposit held in the firm's name, it is treated as a third-party loan. Consequently, it should be priced accordingly, typically at the commercial rate of interest.

May/June 2022

56. When granting a loan against the security of specially minted gold coins sold by banks, what is the maximum weight of coin(s) that can be accepted per customer as per RBI advice?

(A) 50 grams

(B) 10 grams

(C) 100 grams

(D) There is no weight limit.

Ans :

(A) 50 grams

While loans against bullion or primary gold are not permitted, an exception is made for specially minted gold coins sold by banks. To prevent speculative use, the RBI has advised banks that when they grant advances against such coins, they must ensure that the total weight of the coin(s) pledged by a single customer does not exceed 50 grams.

Oct/Nov 2025

57. As per RBI guidelines to standardize the valuation of gold jewellery accepted as security, what basis should banks use?

(A) The prevailing market price of 24-carat gold on the day of the loan.

(B) The original purchase price of the jewellery as mentioned in the invoice.

(C) The average of the closing price of 22-carat gold for the preceding 30 days as quoted by the IBJA.

(D) The historical spot gold price publicly disseminated by a commodity exchange on the date of valuation.

Ans :

(C) The average of the closing price of 22-carat gold for the preceding 30 days as quoted by the IBJA.

To bring uniformity and transparency to the valuation process, the RBI has mandated a specific methodology. Gold jewellery accepted as collateral must be valued at the average of the closing price of 22-carat gold for the 30 days preceding the valuation. This price is to be taken

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Oct/Nov 2011

21. Why is money deposited in a bank account not considered a case of bailment?

(A) Because the bank does not have physical possession of the money.

(B) Because the depositor does not receive any remuneration for the deposit.

(C) Because the bank is not obligated to return the specific currency notes and coins deposited.

(D) Because the transaction is not governed by the Indian Contract Act, 1872.

Ans :

(C) Because the bank is not obligated to return the specific currency notes and coins deposited.

A key feature of bailment is the obligation to return the specific goods that were delivered. When money is deposited in a bank, the bank becomes a debtor and is only required to repay an equivalent amount, not the exact same currency. This lack of an obligation to return the identical property distinguishes it from a bailment.

May/June 2010

22. Under Section 150 of the Indian Contract Act, what is the responsibility of a bailor who bails goods for hire but is unaware of any faults in them?

(A) The bailor has no responsibility as he was unaware of the faults.

(B) The bailor is responsible for any damage arising from such faults.

(C) The bailor is only responsible if the faults were intentionally concealed.

(D) The bailee is solely responsible for inspecting the goods and identifying faults.

Ans :

(B) The bailor is responsible for any damage arising from such faults.

Section 150 makes a crucial distinction for goods bailed for hire. If goods are hired, the bailor is responsible for damage caused by faults, regardless of whether the bailor was aware of their existence. This places a higher duty of care on a bailor who is receiving payment for the use of their goods.

Oct/Nov 2024

23. Consider the following statements about a bailee's duties:

1. If a bailee uses the bailed goods in a manner inconsistent with the conditions of the bailment, the contract becomes voidable at the option of the bailor.
2. If a bailee, with the bailor's consent, mixes the bailor's goods with his own, the bailor loses all interest in the mixture.

Which of the statements is/are correct?

(A) 1 only

(B) 2 only

(C) Both 1 and 2

(D) Neither 1 nor 2

Ans :

(A) 1 only

Statement 1 is correct; any act inconsistent with the bailment conditions makes the contract voidable by the bailor. Statement 2 is incorrect. When goods are mixed with the bailor's consent, the bailor and bailee have a proportional interest in the resulting mixture based on their respective shares, and the bailor does not lose their interest.

May/June 2017

24. A bailee, without the bailor's consent, mixes the bailor's goods with his own goods in such a way that it is impossible to separate them. What is the bailor entitled to?

(A) The bailor is entitled to be compensated by the bailee for the loss of the goods.

(B) The bailor is entitled to a proportionate share of the mixed goods.

(C) The bailee must bear the expense of separation, and the bailor gets his goods back.

(D) The bailor has no remedy as the goods are now inseparable.

Ans :

(A) The bailor is entitled to be compensated by the bailee for the loss of the goods.

When a bailee, without the bailor's consent, mixes goods in a manner that makes separation impossible, the bailee is held responsible for the loss. The law dictates that in such a situation, the bailor is entitled to receive compensation from the bailee for the full value of the goods that can no longer be returned.

Oct/Nov 2005

25. In the absence of a contract to the contrary, which of the following groups of professionals can retain goods bailed to them as security for a general balance of account?

NODIA

(A) Tailors, jewellers, and mechanics.
(B) Doctors, architects, and engineers.
(C) Bankers, factors, Attorneys of a High Court, and policy brokers.
(D) Warehouse keepers, transporters, and commission agents.

Ans :

(C) Bankers, factors, Attorneys of a High Court, and policy brokers.
The right of general lien, which allows retaining any goods as security for a general balance of account, is not available to all bailees. The law specifically confers this right upon certain professionals, including bankers, factors, Attorneys of a High Court, and policy brokers. Other bailees only have a particular lien unless an express contract grants a general lien.

May/June 2020

26. Banks' charges over properties include several types. Which of the following is NOT one of the seven types of charges listed in the chapter?
(A) Guarantee
(B) Assignment
(C) Lien
(D) Set-off

Ans :

(A) Guarantee
The chapter lists seven specific types of charges that banks create over properties: Assignment, Lien, Set-off, Hypothecation, Pledge, Mortgage, and Appropriation. A guarantee is a separate contract of surety and not a charge created directly on a property, although it provides security for a loan. Therefore, 'Guarantee' is not one of the listed types of charges.

Oct/Nov 2015

27. What is the mandatory requirement under Section 130 of the Transfer of Property Act for the transfer of an actionable claim?
(A) The transfer must be for a consideration exceeding ₹100.
(B) Notice must be given to the debtor before the transfer.
(C) The transferor's consent must be obtained by the transferee to sue the debtor.
(D) The transfer can only be effected by the execution of an instrument in writing.

Ans :

(D) The transfer can only be effected by the execution of an instrument in writing.
Section 130 of the Transfer of Property Act, 1882, is explicit about the mode of transferring an actionable claim. It mandates that such a transfer, whether with or without consideration, can only be completed through an instrument in writing signed by the transferor or their duly authorized agent. Oral transfers are not legally valid.

May/June 2013

28. How is a legal assignment of a life insurance policy distinguished from an equitable assignment?
(A) A legal assignment requires court approval, while an equitable assignment does not.
(B) A legal assignment is absolute, in writing, signed, and notice is given to the insurer, whereas an equitable assignment lacks these formalities.
(C) A legal assignment is done by endorsement, while an equitable assignment is done by a separate deed.
(D) A legal assignment transfers only a partial interest, while an equitable assignment transfers the entire interest.

Ans :

(B) A legal assignment is absolute, in writing, signed, and notice is given to the insurer, whereas an equitable assignment lacks these formalities.
A legal assignment of a life insurance policy is an absolute transfer that must be in writing and signed by the assignor. Crucially, notice must be given to the insurer. If these legal formalities are not fully complied with, the assignment may still be recognized as an equitable assignment, but it lacks the full legal standing of the former.

Oct/Nov 2021

29. Under Section 171 of the Indian Contract Act, a banker's lien is described as an implied pledge. What does this right empower the banker to do?
(A) Only retain possession of the goods and securities until the debt is paid.
(B) Use the securities for the bank's own business purposes.
(C) Retain possession and also sell the goods if the debt is not paid.
(D) Claim ownership of the securities if the debt remains unpaid for 90 days.

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Ans :

(C) Retain possession and also sell the goods if the debt is not paid.

A banker's general lien is more powerful than an ordinary lien. It is considered an 'implied pledge', which means that in addition to the right to retain the securities that come into its possession in the ordinary course of business, the bank also acquires the right to sell them to recover its dues if the customer defaults.

May/June 2024

30. What is a 'Negative Lien' in the context of banking?

(A) A lien on assets that have a negative market value.

(B) A statutory right of a bank to refuse a loan to a borrower.

(C) A bank's right to set off a debit balance against a credit balance.

(D) An undertaking by a borrower not to create any charge on their assets without the bank's prior permission.

Ans :

(D) An undertaking by a borrower not to create any charge on their assets without the bank's prior permission.

A negative lien is not a charge but a contractual undertaking given by a borrower. The borrower agrees not to encumber or create any charge over their specified assets (which are not in the bank's possession) in favour of any other creditor without first obtaining the lending bank's consent. This protects the bank's unsecured position.

Oct/Nov 2008

31. In which of the following situations can a banker NOT exercise the right of set-off?

(A) To set-off a credit balance in a current account against a contingent liability of a bill discounted but not yet due.

(B) To set-off a credit balance in a partner's personal account against a debit balance in the partnership firm's account.

(C) To set-off a credit balance in a sole proprietor's personal account against a debit balance of the proprietary concern.

(D) To set-off a debit balance after the due date has arrived or a demand has been made.

Ans :

(A) To set-off a credit balance in a current account against a contingent liability of a bill discounted but not yet due.

The right of set-off can only be exercised against debts that are certain and due. A contingent liability, such as a bill discounted that has not yet matured, is not a present debt. Therefore, a banker cannot set off a customer's credit balance against such a potential future liability until the contingency occurs and the liability becomes definite.

May/June 2006

32. Based on the table "Status of availability of set off right to the banker", in which of the following scenarios is the right of set-off NOT available to the banker?

Deposit in the name of	Loan in the name of	Status of availability
Single person	Jointly with others	Available
Partner in a firm	Partnership firm	Available
Partnership firm	One of the partners	Not available
Trust	Trustee	Not available

(A) Deposit in a single person's name and loan in the name of that person jointly with others.

(B) Deposit in the name of a partner and loan in the name of the partnership firm.

(C) Deposit in the name of a partnership firm and loan in the name of one of the partners.

(D) Deposit in a single name and loan in the same single name.

Ans :

(C) Deposit in the name of a partnership firm and loan in the name of one of the partners.

The provided table clearly indicates the rules for the availability of the set-off right. While the bank can set off a partner's personal deposit against the firm's loan (due to joint and several liability), the reverse is not permitted. The table explicitly states that a deposit in the name of a partnership firm is 'Not available' for set-off against a loan taken by one of the partners individually.

Oct/Nov 2017

33. Under what circumstances does the automatic right of set-off arise for a banker?

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CHAPTER 27
Documentation

Oct/Nov 2022

1. According to the principles of credit management, what is the primary role of "documentation"?
(A) It is an optional formality for internal audit purposes.
(B) It is a vital aspect of credit management that provides legal evidence for a loan.
(C) It serves only to identify the borrower and the amount of the loan.
(D) It is a preliminary process that is superseded by verbal agreements.

Ans :

(B) It is a vital aspect of credit management that provides legal evidence for a loan.
Documentation is a critical component of a bank's credit management. It involves creating a set of legally enforceable documents that serve as written evidence of the lending transaction. These documents are essential for establishing the bank's claim and taking legal action for recovery in the event of a default, making it a vital, not optional, aspect.

May/June 2009

2. Which of the following statements regarding the legal framework for bank documentation is incorrect?
(A) A loan document executed with a minor for his necessities is always enforceable.
(B) The Indian Contract Act governs the fundamental validity of loan agreements.
(C) Non-compliance with enactments like the Indian Stamp Act can affect the validity of documents.
(D) A contract with a minor, other than for necessities, is considered void ab initio.

Ans :

(A) A loan document executed with a minor for his necessities is always enforceable.
While a loan can be given to a minor for necessities, the enforceability of documents is not guaranteed and involves specific legal nuances. The general rule under the Indian Contract Act is that a contract with a minor is void ab initio. The statement that it is 'always' enforceable is an oversimplification and therefore incorrect in this context.

Oct/Nov 2014

3. Which of the following are the primary reasons for a bank to procure documents for a loan?
1. To identify the borrower and the security.
2. To create a written evidence of the lending transaction.
3. To ensure due repayment by the borrower or guarantor.
4. To create a valid and effective security charge.

(A) Only 1 and 2
(B) Only 1, 2, and 3
(C) All 1, 2, 3, and 4
(D) Only 2, 3, and 4

Ans :

(C) All 1, 2, 3, and 4
Documents serve multiple crucial purposes for a bank. They are necessary to formally identify the borrower and any security offered, provide written proof of the loan, establish the obligation for repayment by the borrower and guarantor, and legally create a valid charge on the security. All these functions are fundamental to securing the bank's interests.

May/June 2017

4. The absence of a legally enforceable document would primarily hinder a bank's ability to:
(A) Disburse the loan amount to the borrower.
(B) Calculate the interest on the loan.
(C) Communicate with the guarantor about the loan status.
(D) Prove and establish its claim against the borrower in a court of law.

Ans :

(D) Prove and establish its claim against the borrower in a court of law.
The most critical function of documentation is to provide a legally sound basis for the bank's

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30-day period. What is the immediate next step and timeline available for registration?

(A) The charge becomes void automatically and cannot be registered.

(B) The company must re-create the charge and start the 30-day period again.

(C) The company can apply to the ROC for a further period of 30 days on payment of a fine.

(D) The bank must file a suit in court to validate the charge.

Ans :

(C) The company can apply to the ROC for a further period of 30 days on payment of a fine.

If a company fails to register a charge within the primary 30-day period, the charge does not become immediately void. The law provides a grace period; the company can register the charge within a further period of 30 days, but this is subject to the payment of a fine. Further extensions may also be possible.

May/June 2011

38. A standard 'Deed of Hypothecation' contains several important clauses to protect the banker's interest. Which of the following is a key undertaking by the borrower in such a deed?

(A) An undertaking to sell the goods only to customers approved by the bank.

(B) An undertaking to maintain the agreed margin of security at all times.

(C) An undertaking to provide a personal guarantee from a third party.

(D) An undertaking to convert the hypothecation into a mortgage after one year.

Ans :

(B) An undertaking to maintain the agreed margin of security at all times.

A deed of hypothecation is a comprehensive document. One of its most critical clauses is the borrower's undertaking to maintain the agreed margin of security throughout the loan's tenure. This ensures that the value of the hypothecated goods always exceeds the outstanding loan amount by a specified percentage, protecting the bank from value depreciation.

Oct/Nov 2020

39. As per Section 172 of the Indian Contract Act, 1872, 'Pledge' is defined as the bailment of goods for a specific purpose. Who are the 'pawnor' and 'pawnee' in this transaction?

(A) The pawnor is the person who takes the goods as security; the pawnee is the person whose goods are bailed.

(B) The pawnor is the agent facilitating the transaction; the pawnee is the principal.

(C) Both parties are referred to as pledgors.

(D) The pawnor is the person whose goods are bailed; the pawnee is the person who takes the goods as security.

Ans :

(D) The pawnor is the person whose goods are bailed; the pawnee is the person who takes the goods as security.

Section 172 defines a pledge as a specific type of bailment for securing a debt or promise. In this context, the terminology is distinct. The person delivering the goods as security (the borrower or debtor) is called the 'pawnor'. The person to whom the goods are delivered as security (the creditor or lender) is called the 'pawnee'.

May/June 2022

40. One of the essential requirements of a pledge is the delivery of the goods to the pawnee. Which of the following represents a valid mode of 'constructive delivery'?

(A) Handing over the key of the godown where the goods are stored to the pawnee.

(B) The pawnor verbally promising to deliver the goods at a future date.

(C) The pawnor showing the goods to the pawnee without transferring possession.

(D) Sending a photograph of the goods to the pawnee.

Ans :

(A) Handing over the key of the godown where the goods are stored to the pawnee.

Constructive delivery involves an act that has the legal effect of transferring possession without physical transfer of the goods themselves. Handing over the key of the warehouse where the goods are kept is a classic example. Other modes include attornment by a warehouseman or handing over documents of title like a railway receipt or bill of lading.

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iv. Prepare a memorandum of entry.
v. Pay stamp duty on the memorandum of entry as per local laws.

What is the primary purpose of preparing a 'memorandum of entry'?

(A) It is the main mortgage deed and requires registration to be valid.
(B) It serves as an evidence or record of the transaction to be used in court if required for recovery.
(C) It is an application to the State Government to notify a town for creating such mortgages.
(D) It is a document that transfers legal ownership of the property to the bank.

Ans :

(B) It serves as an evidence or record of the transaction to be used in court if required for recovery.

An equitable mortgage is an oral transaction and does not require a registered deed. The 'memorandum of entry' is an internal record prepared by the bank to document the deposit of title deeds. While it does not create the mortgage itself, it serves as crucial evidence of the transaction and can be filed in court during recovery proceedings.

Oct/Nov 2016

57. A property is subject to two registered mortgages. Mortgage A was executed on January 10th but registered on February 15th. Mortgage B was executed on January 20th but registered on February 1st. According to Section 47 of the Registration Act, 1908, which mortgage will have priority?

(A) Mortgage B, because it was registered earlier.
(B) Both will have equal priority as they were registered in the same month.
(C) Mortgage A, because it was executed earlier.
(D) The priority will be decided by the court based on the value of the mortgage.

Ans :

(C) Mortgage A, because it was executed earlier.

Section 47 of the Registration Act, 1908, establishes that a registered document operates from the date of its execution, not from the date of its registration. Therefore, even though Mortgage B was registered first, Mortgage A will have priority because it was created at an earlier point in time (January 10th).

May/June 2014

58. Based on the table "Difference between Equitable Mortgage and Pledge," identify a key distinction between the two.

	Pledge	Mortgage
1.	Pledgee acquires only a limited interest in the property and ownership remains with the pledger.	Here the legal ownership passes to mortgagee, of course, subject to the mortgagor to redeem the property
2.	The Pawnee has 'special property' in the goods pledged and can sell the same in the event of default.	The mortgagee, as a rule, takes decree of a Court of Law before having recourse against the property...

(A) A pledge applies to immovable property, while a mortgage applies to movable property.
(B) A pledgee can sell the goods on default after notice, while a mortgagee generally requires a court decree for sale.
(C) In a pledge, ownership passes to the pledgee, while in a mortgage, only a limited interest is transferred.
(D) A pledgee has the right of foreclosure, while a mortgagee does not.

Ans :

(B) A pledgee can sell the goods on default after notice, while a mortgagee generally requires a court decree for sale.

The table highlights a critical difference in the enforcement rights. A pawnee (pledgee) has the right to sell the pledged goods upon default after giving reasonable notice, without court intervention. In contrast, a mortgagee typically must obtain a decree from a court of law before they can proceed with the sale of the mortgaged property.

Oct/Nov 2007

59. As per Section 69 of the Transfer of Property Act, a mortgagee can sell the mortgaged property without court intervention if a power of sale is expressly conferred in the mortgage-deed and the property is situated in specified towns like Kolkata, Chennai, or Mumbai. What is a

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Oct/Nov 2009

45. What is the 'Right to Redeem' in the context of a pledge transaction?

(A) The pawnee's right to redeem their loan by selling the pawnor's goods.

(B) The pawnor's right to substitute the pledged goods with other goods of equal value.

(C) The pawnor's right to get back the pledged goods by repaying the debt, even after the stipulated time, provided the goods have not been sold.

(D) The court's right to redeem the goods on behalf of an insolvent pawnor.

Ans :

(C) The pawnor's right to get back the pledged goods by repaying the debt, even after the stipulated time, provided the goods have not been sold.

The right to redeem is a crucial right of the pawnor. It allows the pawnor to reclaim the pledged goods by clearing the entire debt, including interest and expenses. This right continues to exist even if the payment is made after the agreed-upon date, as long as the pawnee has not yet exercised their right of sale.

May/June 2007

46. Consider the following duties of a pawnor:

1. The pawnor must disclose any material faults or extraordinary risks in the pledged goods to the pawnee.
2. The pawnor must reimburse the pawnee for any necessary expenses incurred for the preservation of the goods.

Which of the statements is/are correct?

(A) 1 only

(B) 2 only

(C) Both 1 and 2

(D) Neither 1 nor 2

Ans :

(C) Both 1 and 2

The pawnor has specific duties in a pledge contract. They are obligated to inform the pawnee of any known material faults or unusual risks associated with the goods, failing which they are liable for any resulting damages. Additionally, the pawnor is responsible for repaying the pawnee for any reasonable and necessary expenses incurred in preserving the pledged security.

Oct/Nov 2025

47. Match the type of charge in List-I with its primary characteristic in List-II.

List-I (Type of Charge)			**List-II (Characteristic)**
P.	Lien	1.	Possession remains with the borrower; charge is on movable assets
Q.	Pledge	2.	Right to retain possession until a debt is paid, but no right of sale.
R.	Hypothe-cation	3.	Possession is transferred to the lender as security

(A) P-2, Q-3, R-1

(B) P-1, Q-2, R-3

(C) P-3, Q-1, R-2

(D) P-2, Q-1, R-3

Ans :

(A) P-2, Q-3, R-1

Lien is the right to retain possession of property until a debt is paid, but it does not confer a right of sale. Pledge involves the actual or constructive delivery of possession of movable assets to the lender as security. Hypothecation is a charge on movable assets where the borrower retains possession of the security.

May/June 2016

48. What is the most significant distinction between a pledge and a lien?

(A) A pledge relates to immovable property, while a lien relates to movable property.

(B) A pledge gives the creditor the power of sale on default, whereas a lien only grants the right to retain possession.

(C) A pledge requires a written contract, while a lien can be created orally.

(D) In a pledge, ownership is transferred, while in a lien, only possession is transferred.

Ans :

(B) A pledge gives the creditor the power of sale on default, whereas a lien only grants the right to retain possession.

The crucial difference lies in the remedies available upon default. A person exercising a lien has only the right to retain the subject matter

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Oct/Nov 2023

41. In the context of pledge, what is the legal significance of a 'trust receipt'?

(A) It is a document that creates the initial pledge agreement.

(B) It is an instrument that transfers the ownership of the goods to the pawnee.

(C) It allows the pawnor to temporarily regain possession of goods from the pawnee, holding them in trust for the lender.

(D) It is a receipt issued by the pawnee confirming the goods are held in trust.

Ans :

(C) It allows the pawnor to temporarily regain possession of goods from the pawnee, holding them in trust for the lender.

A trust receipt is used when a pawnee (lender) releases pledged goods or documents of title back to the pawnor (borrower) for a specific purpose, like processing or sale. The pawnor signs the receipt, acknowledging that they hold the goods or their sale proceeds in trust for the pawnee, thereby preserving the pawnee's security interest despite the temporary loss of possession.

May/June 2023

42. Besides the owner of the goods, who among the following can create a valid pledge?

1. A mercantile agent in possession of the goods with the owner's consent.
2. A person in possession of goods under a voidable contract that has not been rescinded.
3. A seller who continues to be in possession of goods after a sale.

(A) 1 only

(B) 1 and 2 only

(C) 2 and 3 only

(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3

The law allows certain non-owners to create a valid pledge under specific conditions to protect bona fide pledgees. This includes a mercantile agent acting in the ordinary course of business, a person holding goods under a voidable contract before it is rescinded, and a seller who retains possession of goods after selling them, provided the pawnee acts in good faith.

Oct/Nov 2014

43. If a pawnor defaults on payment, what are the three rights available to the pawnee?

(A) Forfeit the goods, sue for damages, or charge additional interest.

(B) Appoint a receiver, initiate insolvency proceedings, or take possession of other assets.

(C) Sell the goods immediately, retain the surplus, or sue the pawnor for the deficit.

(D) Sue the pawnor, retain the goods as security, or sell the goods after reasonable notice.

Ans :

(D) Sue the pawnor, retain the goods as security, or sell the goods after reasonable notice.

Upon the pawnor's default, the law provides the pawnee with three distinct remedies. The pawnee can file a suit to recover the debt while retaining the pledged goods as collateral security. Alternatively, the pawnee can choose to exercise the right to sell the pledged goods, but only after giving the pawnor a reasonable notice of the intended sale.

May/June 2021

44. What is the legal position regarding the pawnee's right to sue for the debt and the right to sell the pledged goods?

(A) The rights are concurrent; the pawnee can sue and sell the goods simultaneously.

(B) The pawnee can sue for the debt concurrently with his right to retain the pawn, but the rights to retain and sell are alternative.

(C) The rights are alternative; the pawnee must choose one and cannot pursue the other.

(D) The pawnee must first sell the goods, and only then can they sue for any remaining deficit.

Ans :

(B) The pawnee can sue for the debt concurrently with his right to retain the pawn, but the rights to retain and sell are alternative.

The pawnee's rights are a mix of concurrent and alternative remedies. The pawnee can sue the pawnor for the debt while simultaneously retaining the pledged goods as collateral. However, the right to retain and the right to sell are alternative; the pawnee cannot be retaining the goods and selling them at the same time.

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(D) The mortgagor does not deliver possession but binds himself personally to pay, and the mortgagee has the right to cause the property to be sold by court decree.

Ans :

(D) The mortgagor does not deliver possession but binds himself personally to pay, and the mortgagee has the right to cause the property to be sold by court decree.
A simple mortgage has three core features. First, the mortgagor retains possession of the property. Second, the mortgagor creates a personal liability to repay the loan. Third, it is agreed that if the mortgagor defaults, the mortgagee can go to court to get a decree for the sale of the property to recover the dues.

Oct/Nov 2010

53. In a 'Mortgage by Conditional Sale', under what condition does the ostensible sale of the mortgaged property become absolute?
(A) Upon the mortgagor making full payment of the mortgage money on a certain date.
(B) Upon the mortgagee obtaining a court decree for foreclosure without any default.
(C) Upon default of payment of the mortgage money on a certain date.
(D) Upon the mutual agreement of both the mortgagor and the mortgagee.

Ans :

(C) Upon default of payment of the mortgage money on a certain date.
A mortgage by conditional sale is structured as an apparent sale with a condition. The key condition is that if the mortgagor fails to repay the mortgage money by the agreed-upon date, the ostensible sale becomes absolute, and the mortgagor loses the right to redeem the property, subject to the mortgagee obtaining a court decree for foreclosure.

May/June 2005

54. What are the defining features of a 'Usufructuary Mortgage'?
(A) The mortgagor retains possession and personally promises to pay the debt.
(B) The mortgagor delivers possession to the mortgagee, who retains it and collects rents and profits until the debt is paid off.
(C) The mortgagor absolutely transfers the property with a condition for re-transfer upon payment.
(D) The mortgagor deposits title deeds with the mortgagee to create security.

Ans :

(B) The mortgagor delivers possession to the mortgagee, who retains it and collects rents and profits until the debt is paid off.
In a usufructuary mortgage, the mortgagor delivers possession of the property to the mortgagee. The mortgagee is authorized to retain this possession and appropriate the rents and profits accruing from the property. These earnings are used to pay the interest, the principal, or both, and possession is held until the mortgage money is fully paid off.

Oct/Nov 2022

55. Which statement correctly describes an 'English Mortgage' as per Section 58(e) of the Transfer of Property Act?
(A) The mortgagor delivers possession and the mortgagee collects rent.
(B) The mortgagor ostensibly sells the property, with the sale becoming void on payment.
(C) The mortgagor delivers title deeds in a notified town to create security.
(D) The mortgagor binds himself to repay on a certain date and transfers the property absolutely, subject to a condition of re-transfer on payment.

Ans :

(D) The mortgagor binds himself to repay on a certain date and transfers the property absolutely, subject to a condition of re-transfer on payment.
An English mortgage involves three elements: a personal undertaking by the mortgagor to repay the debt on a specified date, an absolute transfer of the property to the mortgagee, and a provision that the mortgagee will re-transfer the property back to the mortgagor once the debt is fully paid as agreed.

May/June 2018

56. Consider the following procedural steps for creating an equitable mortgage:
i. Obtain a title clearance certificate from an advocate.
ii. Conduct a search of land records for at least thirty years.
iii. Deposit the original title deeds in a notified town.

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(A) Upon the customer opening a new fixed deposit account.
(B) On the death, insanity, or insolvency of the customer, or on receipt of a garnishee order.
(C) Upon the customer requesting a new loan facility.
(D) When the customer's account balance falls below the minimum required balance.

Ans :

(B) On the death, insanity, or insolvency of the customer, or on receipt of a garnishee order.
Certain events trigger an automatic right of set-off for the banker, crystallizing the balances. These events include the death, insanity, or insolvency of the customer, the insolvency of a partner in a firm, the winding-up of a company, the receipt of a garnishee order, or the receipt of a notice of assignment of the customer's credit balance.

May/June 2008

34. How is 'Hypothecation' defined under Section 2 of the SARFAESI Act, 2002?
(A) A charge on movable property created by a borrower without delivering possession to the creditor.
(B) A charge on movable property where possession is delivered to the creditor.
(C) A charge on immovable property created by depositing title deeds.
(D) A transfer of ownership of movable property as security for a debt.

Ans :

(A) A charge on movable property created by a borrower without delivering possession to the creditor.
The SARFAESI Act, 2002, provides a legislative definition for hypothecation. It is defined as a charge created by a borrower in or upon any movable property, either existing or future, in favour of a secured creditor as security for financial assistance, crucially, without the delivery of possession of the property to that creditor.

Oct/Nov 2013

35. Which of the following are considered major drawbacks of hypothecation as a mode of charge for a banker?
1. The goods remain in the possession of the borrower, giving the creditor no control.
2. The borrower may fraudulently deal with or sell the hypothecated stocks.
3. The realisation of assets in case of default can be difficult, prolonged, and costly.

(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
Hypothecation's primary weakness is that the borrower retains possession, leaving the bank with no physical control over the security. This exposes the bank to risks such as fraudulent disposal of goods by the borrower, erosion of security value, and a potentially difficult and expensive process to take possession and realize the assets in the event of a default.

May/June 2015

36. According to Section 332 of the Companies Act, 2013, what is the status of a floating charge created on a company's property within the twelve months preceding the commencement of its winding up?
(A) It becomes a fixed charge and gets top priority over all other debts.
(B) It is considered valid under all circumstances.
(C) Its validity is extended for another twelve months.
(D) It becomes invalid, unless it is proved that the company was solvent immediately after the charge was created.

Ans :

(D) It becomes invalid, unless it is proved that the company was solvent immediately after the charge was created.
Section 332 of the Companies Act, 2013, contains a provision to prevent insolvent companies from creating floating charges to unfairly prefer certain creditors. A floating charge created within 12 months of winding up is deemed invalid, except to the extent of any cash paid to the company at the time of or subsequent to the creation of the charge.

Oct/Nov 2012

37. A company creates a charge by way of hypothecation on its stock in favour of a bank. The company fails to register the charge with the Registrar of Companies (ROC) within the initial

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mandatory pre-condition for exercising this power?

(A) The mortgagor must give written consent for the sale.

(B) The sale must be conducted through a public auction supervised by a government official.

(C) The market value of the property must have depreciated by at least 50%.

(D) A notice requiring payment must be served, and default must persist for three months after service.

Ans :

(D) A notice requiring payment must be served, and default must persist for three months after service.

Section 69, while granting the power of sale without court intervention in certain cases, imposes strict pre-conditions. The power cannot be exercised unless a written notice demanding payment of the principal amount has been served on the mortgagor, and the mortgagor has continued to be in default for a period of three months after receiving the notice.

May/June 2025

60. Mr. A has a housing loan from a bank which is overdue. He deposits ₹15,000 into his savings account, explicitly instructing the bank that this amount is to be used solely for meeting a cheque issued to the electricity company. According to the principle of 'Right of Appropriation' (Sec. 59, Indian Contract Act), what can the bank do?

(A) Appropriate the ₹15,000 towards the overdue housing loan.

(B) Accept the deposit but use it only for honouring the electricity cheque as instructed.

(C) Reject the deposit as it comes with a condition.

(D) Use half the amount for the cheque and the other half for the loan.

Ans :

(B) Accept the deposit but use it only for honouring the electricity cheque as instructed.

Section 59 of the Indian Contract Act gives the debtor the right to direct how a payment should be appropriated. If the creditor (the bank) accepts the payment, it is bound by the debtor's instruction. In this case, since the bank accepted the deposit with a specific instruction, it cannot appropriate the funds for the housing loan.

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until the debt is cleared and has no power to sell it. In contrast, a pawnee in a pledge has the specific right to sell the pledged goods after giving reasonable notice to the pawnor.

Oct/Nov 2018

49. A firm endorses railway receipts for goods in transit in favour of Morvi Mercantile Bank as security for a loan. The railway fails to deliver the goods. Based on the Supreme Court's judgment in Morvi Mercantile Bank Ltd. vs Union of India, can the bank recover the value of the goods?

(A) No, because actual physical delivery of goods is necessary for a valid pledge.
(B) Yes, because endorsement of railway receipts constitutes constructive delivery, creating a valid pledge.
(C) No, because the railway is only liable to the original consignor, not the bank.
(D) Yes, but only after the firm officially declares bankruptcy.

Ans :

(B) Yes, because endorsement of railway receipts constitutes constructive delivery, creating a valid pledge.
In this landmark case, the Supreme Court held that a valid pledge can be created by constructive delivery. Endorsing a document of title to goods, such as a railway receipt, is a valid form of constructive delivery. This act creates a valid pledge in favour of the bank, giving it the rights of a pledgee to sue for the goods.

May/June 2012

50. In the case of Lallan Prasad vs Rahmat Ali, the pawnee (Lallan Prasad) had lost the goods pledged to him. He then filed a suit against the pawnor (Rahmat Ali) for recovery of the loan amount. What was the Supreme Court's decision?

(A) The pawnee could not get a decree for recovery as he was not in a position to return the pledged goods.
(B) The pawnee was entitled to recover the loan amount irrespective of the lost goods.
(C) The pawnor was ordered to compensate the pawnee for the lost goods.
(D) The suit was dismissed, but the pawnee was allowed to file a fresh suit after finding the goods.

Ans :

(A) The pawnee could not get a decree for recovery as he was not in a position to return the pledged goods.
The Supreme Court held that a pawnee's right to sue for the debt is conditional upon their ability to return the pledged goods upon repayment. Since the pawnee had lost the goods and could not fulfill his reciprocal obligation to return them, he was not entitled to a decree for the recovery of the money from the pawnor.

Oct/Nov 2006

51. According to Section 58(a) of the Transfer of Property Act, 1882, a mortgage is a transfer of an interest in specific immovable property for what primary purpose?

(A) To transfer absolute ownership of the property to the mortgagee.
(B) To grant the mortgagee the right to enjoy the rents and profits from the property indefinitely.
(C) To secure the payment of money advanced as a loan, an existing or future debt, or the performance of an engagement giving rise to a pecuniary liability.
(D) To create a temporary lease of the property in favour of the mortgagee.

Ans :

(C) To secure the payment of money advanced as a loan, an existing or future debt, or the performance of an engagement giving rise to a pecuniary liability.
The definition of mortgage under Section 58(a) is very specific about its purpose. It is not a sale but a transfer of a limited interest in an immovable property. This transfer is made solely to provide security for the repayment of a debt (present or future) or for the performance of an obligation that has a financial value.

May/June 2019

52. Which of the following are the essential elements of a 'Simple Mortgage'?

(A) The mortgagor delivers possession and binds himself personally to pay the mortgage money.
(B) The mortgagor ostensibly sells the property, and the sale becomes absolute on default.
(C) The mortgagee takes possession and appropriates the rents and profits in lieu of interest.

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claim. Without a document that is capable of being enforced in court, the bank would find it extremely difficult to prove the existence of the debt and its terms, thereby severely hampering its ability to initiate recovery proceedings upon default.

Oct/Nov 2025

5. Which of the following is NOT listed as a broad type of document taken by a banker for a loan?
(A) Demand Promissory Notes (DPN)
(B) Agreements
(C) Title Deeds
(D) Forms

Ans :

(C) Title Deeds
The text broadly categorizes documents taken by a banker as Demand Promissory Notes (DPN), Bills of Exchange, Agreements, and Forms. While title deeds are a type of security document collected by banks, they are not listed as one of the broad categories in this specific classification, which focuses on the nature of the instrument itself.

May/June 2005

6. In the context of bank lending, when is a Demand Promissory Note (DPN) typically used?
(A) When the repayment of the loan is scheduled in fixed monthly installments.
(B) When a fixed period for the repayment of the loan is not specified.
(C) When the loan is given for a period exceeding three years.
(D) When the loan is secured exclusively by a mortgage of immovable property.

Ans :

(B) When a fixed period for the repayment of the loan is not specified.
A Demand Promissory Note (DPN) is an instrument used when the loan agreement does not specify a fixed repayment period. It contains the borrower's promise to repay the loan amount "on demand" along with the agreed interest. This provides the bank with the flexibility to call for repayment at any time it deems necessary.

Oct/Nov 2011

7. Which statement accurately describes a key feature of a Demand Promissory Note (DPN)?
(A) The form of a DPN must be in conformity with Section 4 of the Indian Contract Act.
(B) The rate of stamp duty on a DPN varies from state to state.
(C) A DPN is only used for loans with a fixed rate of interest.
(D) A DPN must be duly stamped before the borrower signs it.

Ans :

(D) A DPN must be duly stamped before the borrower signs it.
It is a mandatory requirement that a Demand Promissory Note be properly stamped as per the Indian Stamp Act before it is executed (signed) by the borrower. Failure to do so can render the document invalid. The form of a DPN conforms to the NI Act, 1881, and its stamp duty is uniform throughout India.

May/June 2020

8. What is the primary function of an "Agreement" in the context of loan documentation?
(A) To set out the detailed terms and conditions of the credit facility.
(B) To act as a promise to pay on demand, similar to a DPN.
(C) To authorize a third party to collect the loan proceeds.
(D) To serve as a receipt for the documents submitted by the borrower.

Ans :

(A) To set out the detailed terms and conditions of the credit facility.
An agreement is a comprehensive document that details the specific terms and conditions of the loan. This includes the loan amount, interest rates (including penal rates), margin requirements, repayment period, rights of the bank in case of default, and details of the securities charged. It forms the core contract between the bank and the borrower.

Oct/Nov 2007

9. Which of the following is typically NOT included in a loan agreement?
(A) Rate of penal interest
(B) Details of security/securities charged
(C) The borrower's credit history report
(D) Rights of the bankers in case of default

Ans :

(C) The borrower's credit history report

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a potential point of dispute. Authenticating the change with the executant's full signature provides clear evidence that the alteration was made with their knowledge and consent before or at the time of final execution, thus preserving the document's validity.

May/June 2014

28. A bank manager insists that the signature of the maker on a Demand Promissory Note (DPN) must be attested by a witness, believing this makes it more secure. Based on the ruling in Raghunath Balkrishna Deshpande Vs. Biharilal Krishna Prasad Dave, what is the legal status of this attested DPN?

(A) It becomes a Bond and requires higher stamp duty.
(B) It becomes invalid as DPNs cannot be witnessed.
(C) It remains a Promissory Note and does not become a Bond.
(D) It becomes a mortgage deed.

Ans :

(C) It remains a Promissory Note and does not become a Bond.
The Mysore High Court ruling in this specific case clarified a common misconception. It held that the mere attestation or witnessing of the maker's signature on a Demand Promissory Note does not change its fundamental character. The instrument remains a Promissory Note and does not transform into a Bond, which has different legal and stamping implications.

Oct/Nov 2023

29. For a mortgage deed to be legally effective, within what period from its date of execution must it be presented for registration before the Registrar of Assurances?

(A) Within one month
(B) Within three months
(C) Within four months
(D) Within one year

Ans :

(C) Within four months
The creation of a registered mortgage involves a specific legal procedure after the execution of the mortgage deed. The law requires that this deed must be presented for registration to the appropriate Registrar of Assurances within a strict timeline of four months from the date it was executed to ensure its legal validity and priority.

May/June 2010

30. What is the primary consequence if a bank fails to complete post-execution legal procedures, such as filing charges with the Registrar of Companies?

(A) The borrower is no longer liable to repay the loan.
(B) The interest rate on the loan is automatically reduced.
(C) The bank may lose its priority over the security against other creditors.
(D) The loan document becomes immediately time-barred.

Ans :

(C) The bank may lose its priority over the security against other creditors.
Post-execution formalities, like registering charges with the Registrar of Companies for loans to companies or registering mortgages, are crucial for perfecting the bank's security interest. Failure to complete these procedures can result in the bank's charge being subordinate to other subsequent creditors, or even becoming void, thereby losing priority over the security.

Oct/Nov 2013

31. The period within which a bank can file a suit for recovery of a debt is governed by which legislation?

(A) The Indian Contract Act, 1872
(B) The Indian Stamp Act, 1899
(C) The Negotiable Instruments Act, 1881
(D) The Limitation Act, 1963

Ans :

(D) The Limitation Act, 1963
The Limitation Act, 1963, is the specific law that prescribes the time periods within which legal actions, such as filing a suit for debt recovery, must be initiated. If a bank fails to act within this prescribed period, the debt becomes "time-barred," and the bank loses its legal right to enforce recovery through court.

May/June 2019

32. Match the type of document in List-I with its corresponding limitation period in List-II.

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(D) Before or at the time of its execution.

Ans :

(D) Before or at the time of its execution.
Section 17 of the Indian Stamp Act, 1899, provides a clear and strict timeline for stamping documents executed within India. It mandates that all such instruments chargeable with duty must be stamped either before they are executed or, at the very latest, at the moment of execution, not afterwards.

Oct/Nov 2018

15. "As per Sec. 18 of the Act, every instrument, other than a bill of exchange and promissory note, which are chargeable with duty and executed out of India may be stamped within three months after it has been first received in India."
Based on the provided source, if a loan agreement is executed in Dubai on January 1st and first received in Mumbai on January 15th, by what date must it be stamped?
(A) By April 14th
(B) By January 1st
(C) By April 1st
(D) Within three months of execution in Dubai.

Ans :

(A) By April 14th
The source text, referencing Section 18 of the Indian Stamp Act, states the stamping must occur within three months after the instrument has been first received in India. Since the document was received in Mumbai on January 15th, the three-month period begins from this date, making the deadline April 14th of the same year.

May/June 2023

16. A promissory note is drawn in Singapore and sent to a beneficiary in Chennai, who is the first holder in India. According to Section 19 of the Indian Stamp Act, what must the holder in Chennai do?
(A) Stamp it within three months of its receipt.
(B) Affix the proper stamp before presenting it for payment or negotiating it.
(C) Send it back to Singapore for stamping.
(D) Pay the stamp duty only if the note is dishonoured.

Ans :

(B) Affix the proper stamp before presenting it for payment or negotiating it.
As per Section 19 of the Indian Stamp Act, the first holder in India of a promissory note made outside India has a specific responsibility. Before they can present it for acceptance or payment, endorse it, or otherwise negotiate it, they must affix the appropriate stamp and cancel it, activating its legal validity in India.

Oct/Nov 2010

17. Assertion (A): An instrument that is not duly stamped cannot be admitted as evidence in a court.
Reason (R): Such an instrument can be made admissible by paying the deficient stamp duty along with a prescribed penalty.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

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Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
Assertion (A) is a correct statement of the general rule under Section 35 of the Indian Stamp Act. Reason (R) is also a correct statement, as it describes the procedure for curing this defect (impounding). However, (R) is an exception or a remedy to the rule in (A), not the explanation for it.

May/June 2016

18. As per Section 35 of the Indian Stamp Act, if an unstamped document is to be admitted in evidence, what is the penalty to be paid in addition to the deficient duty?
(A) Five rupees or ten times the deficient duty, whichever is higher.
(B) A flat fee of five rupees.
(C) Ten times the amount of the deficient duty.
(D) Five rupees or ten times the deficient duty, whichever is lower.

Ans :

(A) Five rupees or ten times the deficient duty, whichever is higher.
Section 35 of the Indian Stamp Act specifies a clear penalty structure for validating an unstamped instrument for evidentiary purposes. The party

must pay the deficient duty plus a penalty. This penalty is calculated as ten times the deficient duty or five rupees, and the higher of these two amounts is levied.

Oct/Nov 2024

19. What is the consequence of using an adhesive stamp on an instrument without cancelling it?
(A) The stamp duty is considered paid in full.
(B) The executant must pay a penalty of five rupees.
(C) The instrument is deemed to be unstamped.
(D) The stamp can be reused on another document.

Ans :

(C) The instrument is deemed to be unstamped.
Section 12 of the Indian Stamp Act provides for the cancellation of adhesive stamps to prevent their reuse. If an adhesive stamp on an instrument is not properly cancelled, the law treats the instrument as if it were not stamped at all. This can render the document inadmissible in evidence until impounded.

May/June 2008

20. Which of the following pairs correctly matches the instrument with its stamp duty characteristic?
(A) Hypothecation Agreement - Uniform duty in all States
(B) Demand Promissory Note - Duty varies from State to State
(C) Mortgage Deed - Uniform duty in all States
(D) Letter of Credit - Uniform duty in all States

Ans :

(D) Letter of Credit - Uniform duty in all States
Stamp duty on certain instruments, which are central subjects, is uniform across all states in India. These include Promissory Notes, Bills of Exchange, Share Transfers, Receipts, Letters of Credit, and Policies of Insurance. In contrast, duty on documents like hypothecation agreements and mortgage deeds is a state subject and varies between states.

Oct/Nov 2015

21. "The amount of duty must be in accordance with the law prevailing in the State where the document is first executed and/or the transaction is completed."
Based on the source, if a hypothecation agreement for a car in Punjab is signed first by the borrower in Delhi and then sent to the bank in Punjab for execution, which state's stamp duty law will primarily apply?
(A) Punjab, as the transaction is completed there.
(B) Delhi, as the document is first executed there.
(C) Either Delhi or Punjab, at the bank's discretion.
(D) The state with the lower stamp duty rate.

Ans :

(B) Delhi, as the document is first executed there.
The rule states that the law of the state where the document is first executed applies. In this scenario, the borrower's signature in Delhi constitutes the first execution. Therefore, the stamp duty must comply with the rates and rules prevailing in Delhi, even if the asset and the bank branch are located in Punjab.

May/June 2011

22. As per Section 35 of the Indian Stamp Act, with effect from 18-04-2006, which of the following understamped documents can be revalidated upon payment of stamp duty with penalty?
(A) Hypothecation agreements only
(B) Promissory Notes and Bills of Exchange
(C) Mortgage deeds only
(D) All types of loan documents without exception

Ans :

(B) Promissory Notes and Bills of Exchange
While most understamped documents can be validated by paying a penalty, certain instruments like Promissory Notes and Bills of Exchange had stricter rules. However, from 18-04-2006, a change to Section 35 of the Indian Stamp Act allowed even these documents to be revalidated upon payment of the deficient duty and any applicable penalty.

Oct/Nov 2021

23. Regarding the "Filling" stage of documentation, which of the following practices is considered incorrect?
(A) Filling all blanks as per the terms of the credit facility sanction.
(B) Leaving non-applicable alternative clauses undeleted to provide flexibility.
(C) Ensuring the entire document is filled in the same ink and handwriting.
(D) Avoiding overwriting and making any alterations by neatly cutting and rewriting.

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Ans :

(B) Leaving non-applicable alternative clauses undeleted to provide flexibility.
Leaving alternative options or clauses undeleted is a poor documentation practice. It creates ambiguity and can be used against the bank in a legal dispute, as it raises questions about which term was actually agreed upon. All non-applicable options must be clearly deleted before the document is executed by the borrower.

May/June 2007

24. What is the primary legal risk if a banker fills in material blanks in a document after it has been signed by the executant?
(A) The stamp duty on the document becomes invalid.
(B) The document may be invalidated as it is no longer a concluded contract.
(C) The limitation period for the document is automatically reduced.
(D) The banker may face a penalty from the Reserve Bank of India.

Ans :

(B) The document may be invalidated as it is no longer a concluded contract.
Once a document is executed (signed), it becomes a concluded contract. Any subsequent material alteration or filling of blanks by the bank without the executant's explicit consent is legally impermissible. Such an act can invalidate the entire document, as it no longer represents the agreement that the borrower originally signed.

Oct/Nov 2017

25. During the "Execution" of a loan document, what is the most crucial verification the banker must perform regarding the signature?
(A) Ensuring the signature is legible and written in blue ink.
(B) Ensuring the signature is placed at the bottom of the last page only.
(C) Ensuring the signature tallies with the one on the loan application and the bank's records.
(D) Ensuring the signature is witnessed by at least two other borrowers.

Ans :

(C) Ensuring the signature tallies with the one on the loan application and the bank's records.
The primary purpose of execution is to bind the party to the contract. Therefore, the most critical step is to verify that the person signing is indeed the borrower and that the signature is authentic. This is achieved by tallying the signature with the specimen available from the loan application and other account records.

May/June 2025

26. Consider the following statements regarding the execution of documents:
Statement I: When a loan is sanctioned to a minor for his necessity, the guardian must sign for self and as guardian of the minor.
Statement II: The executant's signature is only required on the last page of the document.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct and Statement II is incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(C) Statement I is correct and Statement II is incorrect.
Statement I is correct as it describes the proper procedure for binding the guardian to the contract for a minor's necessity loan. Statement II is incorrect because it is standard and prudent banking practice to obtain the executant's signature on all pages of the document to prevent future disputes about the contents of any page.

Oct/Nov 2005

27. Why is it important to have alterations or cuttings in a document authenticated with the full signature of the executant?
(A) To increase the stamp duty payable on the document.
(B) To confirm that the executant was aware of and agreed to the change.
(C) To comply with the requirements of the Reserve Bank of India.
(D) To ensure the document is filled in the same handwriting.

Ans :

(B) To confirm that the executant was aware of and agreed to the change.
Any alteration, cutting, or rewriting on a document after it has been prepared creates

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A loan agreement outlines the contractual terms of the credit facility, such as interest rates, security details, and the bank's rights upon default. While the borrower's credit history is crucial for the loan appraisal and sanctioning process, the report itself is not typically incorporated as a component of the final legal loan agreement document.

May/June 2013

10. How does the stamp duty on agreements like hypothecation and pledge typically vary?
(A) It varies from State to State.
(B) It is uniform throughout India.
(C) It is determined by the Reserve Bank of India.
(D) It is a percentage of the loan amount, fixed nationally.

Ans :

(A) It varies from State to State.
Unlike a Demand Promissory Note, the stamp duty applicable to most lending agreements, such as pledge agreements, hypothecation agreements, and term loan agreements, is not uniform across the country. The rates are determined by the respective State Governments, and therefore, the applicable duty varies from one state to another.

Oct/Nov 2019

11. What is the distinct purpose of using "Forms" in loan documentation, as opposed to Agreements?
(A) To create a legally binding promise to repay the loan.
(B) To set out the detailed terms and conditions of the loan.
(C) To charge the security in favor of the bank.
(D) To specify clearly the intention of the borrower for a particular transaction.

Ans :

(D) To specify clearly the intention of the borrower for a particular transaction.
Forms are not in the nature of a promise or an agreement. Their main purpose is to obtain a clear, written record of the borrower's intention regarding a specific action. For instance, a form can be used to get authorization from one joint depositor for another to raise a loan on a fixed deposit.

May/June 2024

12. A loan is sanctioned against a fixed deposit held in the joint names of Mr. A and Mrs. A. However, only Mr. A is availing the loan. To ensure the validity of the transaction and clarify Mrs. A's consent, what type of document should the bank obtain from her?
(A) A Demand Promissory Note
(B) An authorization in a 'Form'
(C) A Guarantee Agreement
(D) A Hypothecation Agreement

Ans :

(B) An authorization in a 'Form'
In this scenario, the bank needs to establish Mrs. A's consent for Mr. A to raise a loan against their joint deposit. A 'Form' is the appropriate document for this purpose as it serves to clearly specify the intention of a party. Mrs. A would sign a form authorizing the creation of the lien and the loan.

Oct/Nov 2006

13. Why is the selection of the correct set of documents a critical first step in the documentation procedure?
(A) Because all bank documents have uniform stamp duty rates.
(B) Because documents are interchangeable between different types of facilities and borrowers.
(C) Because using an incorrect document set can render the entire lending transaction legally weak.
(D) Because the borrower must be given a choice of which documents to sign.

Ans :

(C) Because using an incorrect document set can render the entire lending transaction legally weak.
The set of documents must be precisely relevant to the nature of the credit facility (e.g., cash credit vs. term loan), the type of charge being created, and the legal status of the borrower (e.g., individual vs. company). Using an incorrect document, such as a form for an individual for a company, can create legal vulnerabilities.

May/June 2012

14. According to Section 17 of the Indian Stamp Act, 1899, when must an instrument chargeable with duty and executed in India be stamped?
(A) Within three months after its execution.
(B) Within one month after its execution.
(C) Any time before it is presented in a court of law.

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	List-I (Document)	List-II (Limitation Period)	
P.	Demand Promissory Note	1.	12 years
Q.	Mortgage	2.	1 year
R.	Acknowledge-ment of Debt	3.	3 years
S.	Part Payment of Loan	4.	Extends existing limitation

Code:
(A) P-3, Q-1, R-4, S-4
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-1, R-2, S-2
(D) P-2, Q-1, R-3, S-3

Ans :

(A) P-3, Q-1, R-4, S-4
The standard limitation period for filing a suit based on a Demand Promissory Note is 3 years from the date of execution. For a mortgage, it is a much longer period of 12 years. Both obtaining a written Acknowledgement of Debt and receiving a part payment before the expiry of the current limitation period serve to extend it.

Oct/Nov 2009

33. Which of the following correctly describes a method for extending the limitation period of a loan?
(A) By obtaining a verbal promise from the borrower to repay the loan.
(B) By sending a legal notice to the borrower after the limitation period has expired.
(C) By obtaining a written acknowledgement of debt from the borrower before the limitation period expires.
(D) By making an internal note in the bank's records about the outstanding debt.

Ans :

(C) By obtaining a written acknowledgement of debt from the borrower before the limitation period expires.
The Limitation Act allows for the extension of the limitation period if a fresh starting point is created. This can be achieved by obtaining an "acknowledgement of debt" in writing, signed by the borrower, before the original or previously extended period expires. Verbal promises or internal bank notes are not sufficient for this purpose.

NODIA

May/June 2022

34. A loan was disbursed on a Demand Promissory Note (DPN) dated June 1, 2020. The limitation period is 3 years. The borrower makes a part payment towards the loan on May 15, 2023, and the payment is evidenced by his signature. What is the effect of this action?
(A) The limitation period is not affected.
(B) A fresh limitation period of 3 years starts from May 15, 2023.
(C) The limitation period expires on June 1, 2023, as scheduled.
(D) The DPN must be replaced with a mortgage deed.

Ans :

(B) A fresh limitation period of 3 years starts from May 15, 2023.
A part payment of the loan, made by the borrower or their authorized agent and evidenced in writing, before the expiry of the existing limitation period, gives rise to a fresh period of limitation. In this case, the payment on May 15, 2023, starts a new 3-year period from that date.

Oct/Nov 2020

35. If the limitation period for a loan document expires, what is the only way to extend it?
(A) By obtaining a back-dated acknowledgement of debt.
(B) By executing a fresh set of loan documents.
(C) By filing a special application with the Reserve Bank of India.
(D) By getting a verbal confirmation from the borrower.

Ans :

(B) By executing a fresh set of loan documents.
Once the limitation period has expired, the debt becomes time-barred. An acknowledgement of debt or a part payment is no longer effective in extending the period. The only way to re-establish a legally enforceable debt is for the borrower to execute a completely fresh set of loan documents, which creates a new contract.

May/June 2015

36. Arrange the following steps for extending the validity of a loan document in the correct

sequence, assuming the original limitation period is about to expire.

1. The original limitation period expires.
2. The borrower makes a part payment, evidenced by signature.
3. A fresh period of limitation starts from the date of part payment.
4. The bank files a suit for recovery.

(A) 1, 2, 3, 4
(B) 2, 1, 4, 3
(C) 4, 1, 2, 3
(D) 2, 3, 1, 4

Ans :

(D) 2, 3, 1, 4
To validly extend the limitation, the part payment (Step 2) must occur before the original period expires (Step 1). This part payment creates a fresh limitation period (Step 3). The bank would only file a suit (Step 4) after a default occurs within this new or original period, not as a step in the extension process itself.

Oct/Nov 2012

37. Which of the following statements regarding the renewal of a credit facility is incorrect?
(A) It is mandatory to obtain a fresh set of documents for every renewal.
(B) A formal letter to the borrower agreeing to continue the facility can suffice.
(C) An acknowledgement of debt and security can be attached to the original documents.
(D) Cancellation of existing documents during renewal can cause a discontinuity in the bank's charge.

Ans :

(A) It is mandatory to obtain a fresh set of documents for every renewal.
It is not mandatory to get a fresh set of documents every time a credit facility is renewed. The bank can continue the facility with a formal letter and obtain a signed acknowledgement of the existing debt and security. This acknowledgement is then attached to the original set of documents, preserving the continuity of the charge.

May/June 2006

38. The revival of a time-barred debt is governed by the provisions of which section of the Indian Contract Act, 1872?
(A) Section 10
(B) Section 25(3)
(C) Section 35
(D) Section 72

Ans :

(B) Section 25(3)
Section 25(3) of the Indian Contract Act, 1872, specifically addresses the revival of debts that have become unenforceable due to the law of limitation. It states that a written and signed promise to pay a time-barred debt, wholly or in part, is a valid contract and not void for want of consideration.

Oct/Nov 2008

39. "This section [Sec. 25(3) of the Contract Act, 1872] provides that a promise made in writing and signed by the person to be charged therewith, or by his agent... to pay wholly or in part, a debt, of which the creditor might have enforced payment but for the law of limitation of suits, is not void for want of consideration."
Based on this source, which condition is NOT required to revive a time-barred debt?
(A) The promise must be in writing.
(B) The promise must be signed by the debtor or their agent.
(C) The debt must have been legally enforceable before it became time-barred.
(D) The promise must be supported by fresh consideration from the bank.

Ans :

(D) The promise must be supported by fresh consideration from the bank.
The source explicitly states that a promise to pay a time-barred debt is "not void for want of consideration." This means that the past debt itself serves as the consideration for the new promise. Therefore, no fresh or new consideration is required from the creditor (the bank) to make the new promise legally valid and enforceable.

May/June 2018

40. What is the effect of a fresh promise to pay a time-barred debt that complies with Section 25(3) of the Contract Act?
(A) It extends the original limitation period.
(B) It confers a fresh cause of action on the creditor.
(C) It validates the original, expired documents.
(D) It requires the bank to file a suit within 30 days.

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Ans :

(B) It confers a fresh cause of action on the creditor.
A valid promise to pay a time-barred debt does not merely extend or revive the old contract. Instead, it creates a new, independent contract. This new contract gives the creditor (the bank) a completely fresh cause of action, allowing it to sue for recovery based on this new promise, with a new limitation period starting from its date.

Oct/Nov 2016

41. A borrower with a time-barred debt writes a letter to the bank stating, "I am arranging to pay the amount of about ₹50,000 by cash. For the rest of the amount I will arrange to send a bank Guarantee." Based on case law, how is this statement likely to be interpreted?
(A) As a mere acknowledgement of liability, which is insufficient.
(B) As a conditional offer that is not binding.
(C) As a fresh promise to pay, sufficient to revive the debt.
(D) As a statement made under duress and therefore invalid.

Ans :

(C) As a fresh promise to pay, sufficient to revive the debt.
The text cites a recent case where these specific words were held to constitute a fresh promise to pay. The language goes beyond a simple acknowledgement of an existing debt. The active phrasing "I am arranging to pay" and "I will arrange to send" implies a definite intention and promise to settle the debt, satisfying the criteria for revival.

May/June 2021

42. According to the cited case laws, which of the following would NOT be considered a valid promise to pay under Section 25(3) of the Contract Act?
(A) A statement made by a debtor, while acting as a witness in court, admitting the time-barred debt.
(B) A letter stating "I will pay the outstanding amount next month."
(C) A written and signed statement saying "I promise to pay the time-barred debt of ₹1,00,000."
(D) A letter stating "I am arranging to pay the amount".

Ans :

(A) A statement made by a debtor, while acting as a witness in court, admitting the time-barred debt.
Based on the case of Lalan Sanbayya vs Pattan, a statement made in court as a witness, even if it admits a time-barred debt, does not constitute a promise to pay within the meaning of Section 25(3). The provision requires a promise made to the creditor, not an admission made in a different legal context.

Oct/Nov 2025

43. Assertion (A): A mere acknowledgement of liability, even if it implies a promise, is not sufficient to revive a time-barred debt under Sec. 25(3).
Reason (R): To revive a time-barred debt, there must be an express promise to pay.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The text, citing Ganesh vs Mallu Mal Girdar Das, distinguishes between an acknowledgement (which extends a live debt) and a promise (which revives a dead debt). Assertion (A) is correct. Reason (R) correctly explains why, stating that Section 25(3) requires an "express promise to pay," a higher standard than a mere acknowledgement.

May/June 2009

44. Based on the Calcutta High Court decision in Manoj Kumar Saha vs Nobadwip Chandra Poddar, what is the status of a mortgage by deposit of title deeds created in lieu of a time-barred debt?
(A) It is invalid because the underlying debt is not enforceable.
(B) It is valid because the mortgage is considered a form of payment of the debt.
(C) It is valid only if supported by a fresh cash payment.
(D) It is invalid and does not fall under Section 25(3) of the Contract Act.

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Ans :

(B) It is valid because the mortgage is considered a form of payment of the debt.
The Calcutta High Court held that creating a mortgage for a time-barred debt is a valid transaction. The court reasoned that this act is not governed by Section 25(3) because it is not merely a promise to pay. Instead, assigning an interest in property to the creditor is treated as a virtual discharge or payment of the debt itself.

Oct/Nov 2014

45. Which of the following statements about the safekeeping and preservation of loan documents is correct?
(A) Documents are valuable but may be discarded immediately after the loan is fully repaid.
(B) Documents should be kept in fireproof and pilfer-proof cabinets or strong rooms.
(C) The responsibility for documents lies with the entire branch staff collectively.
(D) Documents for long-term loans of twenty years are typically destroyed after ten years.

Ans :

(B) Documents should be kept in fireproof and pilfer-proof cabinets or strong rooms.
Loan documents are vital assets for a bank, providing evidence of its claims. Therefore, they must be stored securely and properly to protect them from damage, loss, or theft. Using fireproof and pilfer-proof cabinets or strong rooms is the standard and correct procedure for ensuring their physical preservation over the long term.

May/June 2017

46. Consider the following statements regarding the custody of loan documents:
Statement I: To ensure accountability, documents are kept in the personal custody of an authorised official.
Statement II: Upon a change of the authorised official, a formal handing over and taking over of the documents is performed.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct and Statement II is incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(A) Both Statement I and Statement II are correct.
Both statements describe standard and essential internal controls for managing loan documents. Assigning personal custody to a specific authorized official establishes clear responsibility (Statement I). The formal process of handing over and taking over during a change of incumbency ensures that this responsibility is transferred without any break in accountability (Statement II).

Oct/Nov 2022

47. What is the modern trend in banking regarding the storage of loan documents, especially with changes in business processes?
(A) Each branch continues to hold all documents for its respective borrowers.
(B) Documents are digitized and the physical copies are immediately destroyed.
(C) Documents are generally stored at centralized hubs or nodal points for a region.
(D) Documents are sent to the Reserve Bank of India for safekeeping.

Ans :

(C) Documents are generally stored at centralized hubs or nodal points for a region.
The text notes a shift from the traditional model of each branch holding its own documents. With changes in business processes, banks now often centralize document storage. Documents for customers in a particular region or zone are stored at specialized hubs or nodal points, which can offer better security, control, and efficiency.

May/June 2005

48. For how long must loan documents be preserved by a bank?
(A) Until the loan is fully repaid, after which they are immediately returned.
(B) For a minimum of three years after the loan is fully repaid.
(C) Until the entire dues are recovered, and for a specified period thereafter due to legal requirements.
(D) For a maximum period of 12 years, irrespective of the loan status.

Ans :

(C) Until the entire dues are recovered, and for a specified period thereafter due to legal requirements.

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The primary requirement is to preserve documents until the loan is fully recovered. However, the text also mentions that due to legal requirements for maintenance of records, documents are preserved for a specified period even after full recovery of dues. This ensures compliance and availability for any future audits or legal queries.

Oct/Nov 2011

49. "Among the various purposes of taking documents, resorting to legal remedies, in case of necessity, is the prime one. Following various steps namely, selection of correct set of documents, stamping at right point of time, filling in a proper manner, execution, observing the legal formalities, keeping the documents alive always and preserving the documents till the entire dues are recovered, meticulously will help va banker in ensuring error-free documentation." Based on the source, what is identified as the prime purpose of taking documents?

(A) To ensure meticulous and error-free documentation.
(B) To facilitate resorting to legal remedies when necessary.
(C) To keep the documents alive always.
(D) To select the correct set of documents.

Ans :

(B) To facilitate resorting to legal remedies when necessary.
The source text explicitly states that "resorting to legal remedies, in case of necessity, is the prime one" among the various purposes of documentation. The other points mentioned, such as correct selection, stamping, and filling, are the necessary steps to achieve this prime objective of ensuring legal enforceability for recovery of dues.

May/June 2020

50. Which of the following terms is NOT listed as a keyword for the chapter?

(A) Stamping
(B) Acknowledgement of Debt
(C) Limitation Period
(D) Renewal of Document

Ans :

(C) Limitation Period
The keywords listed in the source text are Documentation, Demand Promissory Note, Agreement, Stamping, Acknowledgement of Debt, Revival of Document, and Renewal of Document. While the concept of the 'Limitation Period' is discussed extensively in the chapter, the specific term itself is not included in the final list of keywords provided.

Oct/Nov 2007

51. Which of the following statements about the documentation process are correct?

1. The rate of stamp duty on a Demand Promissory Note is uniform throughout India.
2. An unstamped document can never be admitted as evidence in court, even with a penalty.
3. For a loan to a company, charge registration forms must be filed with the Registrar of Companies.

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(C) 1 and 3 only
Statement 1 is correct, as DPNs are a central subject. Statement 3 is also correct, as it's a necessary post-execution legal procedure. Statement 2 is incorrect because Section 35 of the Stamp Act allows an unstamped document to be admitted in evidence upon payment of the deficit duty along with a specified penalty.

May/June 2013

52. Identify the incorrect pairing of the section of the Indian Stamp Act, 1899, with its provision.

(A) Sec. 12 - Mandates the cancellation of adhesive stamps to prevent reuse.
(B) Sec. 17 - Requires documents executed in India to be stamped before or at the time of execution.
(C) Sec. 35 - Governs the admissibility of unstamped documents in evidence upon payment of a penalty.
(D) Sec. 18 - Requires bills of exchange executed out of India to be stamped within 3 months of receipt.

Ans :

(D) Sec. 18 - Requires bills of exchange executed out of India to be stamped within 3 months of receipt.

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Ans :

(D) Asset classification is done on a borrower-wise basis, not a facility-wise basis.
The prudential norms mandate a borrower-wise, not facility-wise, approach to asset classification. If any one facility granted to a borrower becomes an NPA, all other facilities granted to that same borrower must also be classified as NPA. This reflects the view that a default in one area indicates a broader financial weakness of the borrower.

May/June 2009

22. Consider a borrower whose term loan is classified as NPA. The same borrower also has bills discounted under a Letter of Credit (LC). Which statement correctly describes the treatment of these bills?
(A) The bills discounted under LC are automatically classified as NPA.
(B) The bills are not classified as NPA, unless the LC issuing bank defaults or documents are not accepted.
(C) The bills are classified as Substandard, while the term loan is classified as Doubtful.
(D) The bills are treated as standard assets as long as the LC is valid.

Ans :

(B) The bills are not classified as NPA, unless the LC issuing bank defaults or documents are not accepted.
An exception to the borrower-wise classification rule exists for bills discounted under an LC. Even if other facilities of the borrower are NPA, such bills are not classified as NPA. However, they will become NPA if documents are not accepted on presentation, or the LC issuing bank fails to pay on the due date.

Oct/Nov 2011

23. In a consortium lending arrangement, how is the asset classification of an account determined for an individual member bank?
(A) All member banks must follow the asset classification decided by the lead bank.
(B) The classification is determined by the bank with the largest share in the consortium.
(C) The classification is based on the record of recovery in the books of each individual member bank.
(D) All member banks must uniformly classify the account as NPA if the borrower defaults with any one bank.

Ans :

(C) The classification is based on the record of recovery in the books of each individual member bank.
For consortium advances, asset classification is not determined by the lead bank for all members. Each participating bank must classify the account based on the record of recovery in its own books. To ensure proper classification, member banks should arrange to get their share of recovery transferred from the lead bank or obtain its express consent.

May/June 2010

24. In a scenario where there is a significant erosion in the value of security due to fraud committed by the borrower, how should the asset be classified?
(A) It must first be classified as substandard for 12 months.
(B) It remains a standard asset if the borrower's other accounts are regular.
(C) The classification is put on hold until the fraud investigation is complete.
(D) It should be straightaway classified as a doubtful or loss asset, as appropriate.

Ans :

(D) It should be straightaway classified as a doubtful or loss asset, as appropriate.
In cases of serious credit impairment, such as fraud by the borrower leading to erosion or non-availability of security, it is not prudent for the account to go through the normal stages of asset classification (i.e., substandard first). The asset should be directly classified as a doubtful or loss asset, as deemed appropriate, reflecting the heightened risk.

Oct/Nov 2024

25. For advances granted to Primary Agricultural Credit Societies (PACS) under an on-lending arrangement, which facility gets classified as NPA upon default?
(A) Only the particular credit facility granted to the PACS that is in default is classified as NPA.
(B) All credit facilities, including direct loans to members of the PACS, become NPA.
(C) All facilities sanctioned to the PACS become NPA, but not the direct loans to its members.

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Ans :

(A) 1, 2 and 4 only
Using the same ink and handwriting (1), properly authenticating alterations (2), and getting signatures on all pages (4) are all crucial best practices to prevent disputes. Statement (3) is incorrect; leaving blank fields unfilled is a dangerous practice that creates ambiguity and can lead to the document being challenged or invalidated.

Oct/Nov 2018

57. Assertion (A): When renewing a credit facility, cancelling the old set of documents and obtaining a new set can be risky for the bank.
Reason (R): This action can cause a discontinuity in the bank's charge on the security for the credit facility.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a correct statement of a potential risk. Reason (R) provides the precise legal explanation for this risk. Cancelling the original documents breaks the legal link to the security. If another charge was created in the interim, the bank's new documents would rank after that charge, causing a loss of priority.

May/June 2023

58. Match the concept from List-I with its most relevant description in List-II.

	List-I (Concept)		**List-II (Description)**
P.	Form	1.	Governs the time limit for filing a suit.
Q.	Agreement	2.	Used to clarify the intention of the borrower
R.	Limitation Act, 1963	3.	Promise to repay on demand when no fixed period is specified
S.	DPN	4.	Sets out detailed terms like interest rate, margin, and security

Code:
(A) P-2, Q-4, R-1, S-3
(B) P-3, Q-1, R-4, S-2
(C) P-2, Q-3, R-1, S-4
(D) P-4, Q-2, R-3, S-1

Ans :

(A) P-2, Q-4, R-1, S-3
A 'Form' is used to specify borrower intention (P-2). An 'Agreement' contains the detailed terms and conditions of the loan (Q-4). The 'Limitation Act, 1963' prescribes the time limit for legal action (R-1). A 'DPN' is a promise to repay on demand when a fixed period is not set (S-3).

Oct/Nov 2010

59. Which of the following statements accurately reflects the procedure for handling loan documents in a bank?
(A) Documents are kept in general-purpose filing cabinets accessible to all staff.
(B) On change of incumbency, the new official implicitly takes over document custody.
(C) A register is maintained to record the details of documents executed, signed by bank officials.
(D) Once a loan is repaid, all documents are immediately shredded as per bank policy.

Ans :

(C) A register is maintained to record the details of documents executed, signed by bank officials.
It is a standard procedure to record the facts of execution in a dedicated register. This entry includes the date, time, and details of documents executed and is signed by bank officials. This register can be produced as evidence in case of a dispute regarding the execution of the documents, strengthening the bank's position.

May/June 2016

60. The meticulous, step-by-step process of documentation, from selection to preservation, primarily helps a banker in achieving what ultimate goal?
(A) Meeting the bank's internal audit compliance targets.
(B) Improving the customer relationship management score.

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(C) Building a portfolio of different types of credit facilities.
(D) Ensuring the creation of a legally sound and error-free basis for debt recovery.

Ans :

(D) Ensuring the creation of a legally sound and error-free basis for debt recovery.
The entire documentation procedure, including correct selection, stamping, filling, execution, and preservation, is designed to create a set of legally robust documents. This meticulous process ensures that, should the need arise, the bank has an unassailable legal claim to recover its dues, which is the ultimate goal of securing the loan transaction.

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CHAPTER 28

Non-performing Assets/Stressed Assets

Oct/Nov 2014

1. According to the recommendations of the 'Committee on the Financial System' (Narasimham Committee), what should be the basis for a bank's policy of income recognition?

(A) It should be based on subjective considerations of the branch manager.

(B) It should be based on the record of recovery, ensuring objectivity.

(C) It should be based on the value of security available in the account.

(D) It should be based on the borrower's projected future earnings.

Ans :

(B) It should be based on the record of recovery, ensuring objectivity.

The prudential norms introduced by RBI, based on the Narasimham Committee recommendations, mandate that the income recognition policy must be objective. It should be based on the actual record of recovery rather than any subjective criteria. This approach ensures greater consistency, transparency, and alignment with international best practices for a healthier financial system.

May/June 2021

2. A term loan installment of ₹50,000 was due on January 31. The borrower failed to pay on the due date. The account remained overdue for the months of February, March, and April. On what date would the bank classify this term loan as a Non-Performing Asset (NPA)?

(A) May 1

(B) February 1

(C) April 1

(D) March 31

Ans :

(A) May 1

A term loan becomes an NPA if the interest and/or principal installment remains overdue for a period of more than 90 days. The 90-day period starts from the day after the due date. The period of more than 90 days is completed after April 30 (28 days in Feb + 31 in Mar + 30 in Apr = 89 days, plus 1 day to be 'more than'). Thus, it becomes NPA on May 1.

Oct/Nov 2006

3. For an agricultural advance granted for short duration crops, under what condition is the loan classified as a Non-Performing Asset (NPA)?

(A) The instalment of principal or interest thereon remains overdue for one crop season.

(B) The instalment of principal or interest thereon remains overdue for more than 90 days.

(C) The instalment of principal or interest thereon remains overdue for two crop seasons.

(D) The instalment of principal or interest thereon remains overdue for more than 180 days.

Ans :

(C) The instalment of principal or interest thereon remains overdue for two crop seasons.

For agricultural loans related to short duration crops, the NPA norm is linked to crop seasons, not a fixed number of days. An advance is classified as an NPA if the principal or interest payment remains overdue for two consecutive crop seasons. This acknowledges the cyclical nature of agricultural income and its dependence on harvest cycles.

May/June 2018

4. Under what condition does an agricultural advance for a long duration crop become a Non-Performing Asset (NPA)?

(A) The instalment of principal or interest remains overdue for two crop seasons.

(B) The instalment of principal or interest remains overdue for more than 180 days.

(C) The instalment of principal or interest remains overdue for more than 90 days.

(D) The instalment of principal or interest remains overdue for one crop season.

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Ans :

(D) The instalment of principal or interest remains overdue for one crop season.
For agricultural loans related to long duration crops, which have a crop season longer than one year, the NPA classification criterion is different from short duration crops. The asset is treated as an NPA if the instalment of principal or interest thereon remains overdue for one single crop season, reflecting the longer cash flow cycle.

Oct/Nov 2022

5. In the context of derivative transactions, when are overdue receivables classified as a Non-Performing Asset (NPA)?
(A) When they remain unpaid for a period of 30 days from the specified due date.
(B) When they remain unpaid for a period of 60 days from the specified due date.
(C) When they remain unpaid for a period of 90 days from the specified due date.
(D) Immediately upon the specified due date for payment being missed.

Ans :

(C) When they remain unpaid for a period of 90 days from the specified due date.
For derivative transactions, the overdue receivables that represent a positive mark-to-market value of the contract become an NPA if they are not paid within 90 days from the specified due date. This aligns the treatment of such exposures with the standard 90-day delinquency norm applied to other credit facilities like term loans and bills.

May/June 2005

6. A company has a Cash Credit (CC) limit of ₹20 lakh. For 100 consecutive days, its outstanding balance was ₹18 lakh, which is within the sanctioned limit. However, during this period, no credits were posted to the account, and the interest debited was ₹40,000. How will the bank classify this account?
(A) As a standard asset since the outstanding is within the limit.
(B) As an 'out of order' account and therefore an NPA.
(C) As an SMA-2 account, but not yet an NPA.
(D) As a restructured asset.

Ans :

(B) As an 'out of order' account and therefore an NPA.
An account is 'out of order' if, while the outstanding is within the sanctioned limit, there are no credits continuously for 90 days, or credits are not enough to cover the interest debited. Since there were no credits for 100 days, the account is deemed 'out of order' and is consequently classified as an NPA.

Oct/Nov 2010

7. What is the precise definition of an amount being 'overdue' under any credit facility provided by a bank?
(A) An amount that is not paid within 30 days of the due date fixed by the bank.
(B) An amount that is not paid within 90 days of the due date fixed by the bank.
(C) An amount that exceeds the sanctioned limit or drawing power.
(D) An amount that is not paid on the due date fixed by the bank.

Ans :

(D) An amount that is not paid on the due date fixed by the bank.
The term 'overdue' has a specific meaning in prudential norms. Any amount due to the bank under any credit facility is considered 'overdue' if it is not paid on the exact due date that was fixed by the bank. The classification as NPA is then based on how long this overdue status persists, typically for more than 90 days.

May/June 2012

8. What is the fundamental principle of income recognition for a Non-Performing Asset (NPA)?
(A) Income is recognized only when it is actually received, i.e., on a cash basis.
(B) Income is recognized on an accrual basis, but provisioning is made for the unrealized portion.
(C) Income recognition is deferred until the asset is upgraded back to the standard category.
(D) Income is recognized on an accrual basis for the secured portion of the NPA.

Ans :

(A) Income is recognized only when it is actually received, i.e., on a cash basis.
Once an asset is classified as an NPA, the principle of income recognition shifts from an accrual basis to a cash basis. This means banks should not take

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interest on NPAs to their income account until it is actually received from the borrower. This conservative accounting practice prevents the overstatement of income and ensures financial transparency.

Oct/Nov 2019

9. Under what specific circumstance can a bank take interest on an advance to its income account on the due date, even if the account is an NPA?

(A) If the advance is guaranteed by the Central Government.

(B) If the borrower provides a written commitment to pay the interest within 30 days.

(C) If the advance is against term deposits, NSCs, IVPs, KVPs, or Life policies with adequate margin.

(D) If the advance is part of a consortium arrangement and the lead bank has received payment.

Ans :

(C) If the advance is against term deposits, NSCs, IVPs, KVPs, or Life policies with adequate margin.

While the general rule prohibits income recognition on NPAs on an accrual basis, an exception exists for advances secured by highly liquid assets. Interest on advances against term deposits, NSCs, IVPs, KVPs, and Life policies can be taken to the income account on the due date, provided there is adequate margin available in the account.

May/June 2007

10. If an advance is classified as an NPA, what action must a bank take regarding the interest that was accrued and credited to the income account in past periods but remains unrealized?

(A) The unrealized interest should be reversed or fully provided for.

(B) The unrealized interest should be capitalized and added to the principal outstanding.

(C) No action is required as the interest was correctly accrued in past periods.

(D) The unrealized interest should be transferred to a 'Contingent Income Account'.

Ans :

(A) The unrealized interest should be reversed or fully provided for.

When an account becomes an NPA, any interest that was previously accrued and taken to the income account but has not been actually realized must be reversed. If reversal is not possible, a 100% provision must be created against it. This ensures that the bank's income statement reflects only realized income, maintaining the integrity of its financial reporting.

Oct/Nov 2016

11. When an account turns into an NPA, how should a bank treat the further application of interest on the account for record-keeping purposes?

(A) Stop applying interest altogether, both in the loan ledger and memorandum accounts.

(B) Continue to charge interest to the borrower's account and debit the Profit and Loss account.

(C) Apply interest at a reduced rate and credit it to a suspense account.

(D) Continue to record accrued interest in a Memorandum account but not in the main loan ledger.

Ans :

(D) Continue to record accrued interest in a Memorandum account but not in the main loan ledger.

After an account becomes an NPA, banks must stop applying interest to the main loan account. However, for record-keeping and recovery purposes, they may continue to calculate and record such accrued interest in a separate Memorandum account. This interest recorded in the Memorandum account is not recognized as income and is not included in Gross Advances.

May/June 2023

12. How is 'Gross Advances' computed for the purpose of NPA reporting?

(A) Standard Assets minus Gross NPA.

(B) Standard Assets plus Gross NPA.

(C) Total funded assets minus provisions held.

(D) All outstanding loans and advances, including technical write-offs.

Ans :

(B) Standard Assets plus Gross NPA.

The computation of Gross Advances is a fundamental step in NPA reporting. It is calculated as the sum of all standard assets and the total Gross Non-Performing Assets. This figure represents the entire loan portfolio of the

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Section 18 specifically excludes bills of exchange and promissory notes from its three-month rule. The stamping of foreign bills of exchange and promissory notes is governed by Section 19, which requires the first holder in India to stamp it before any negotiation or presentation for payment. Therefore, the pairing shown is incorrect.

Oct/Nov 2019

53. What is the best practice to avoid ambiguity when using pre-printed document forms with multiple optional clauses?

(A) Ask the borrower to initial next to the clauses that apply.
(B) Leave all options as they are to cover all possibilities.
(C) Neatly strike through and delete all non-applicable clauses or options.
(D) Attach a separate sheet explaining which clauses are applicable.

Ans :

(C) Neatly strike through and delete all non-applicable clauses or options.
Leaving non-applicable alternatives undeleted can give rise to ambiguity and be used against the bank. The most appropriate and legally sound practice is to clearly and neatly delete any clauses, words, or options that do not apply to the specific transaction before the document is executed by the borrower.

May/June 2024

54. "It is sometimes misconceived that if the signature of the maker is attested or witnessed on the Demand Promissory Note, it becomes a Bond. This point was challenged in Mysore. High Court...held by the Court that the Promissory Note even if attested does not become a Bond."
What is the primary implication of this judicial clarification for banks?

(A) Banks should avoid getting DPNs attested to prevent legal complications.
(B) An attested DPN requires a higher stamp duty applicable to Bonds.
(C) Attesting a DPN is a procedural error that invalidates the note.
(D) Attestation does not alter the legal character or stamp duty requirement of a DPN.

Ans :

(D) Attestation does not alter the legal character or stamp duty requirement of a DPN.
The ruling clarifies that the act of attesting a DPN does not change its nature from a promissory note to a bond. This means the legal character, the applicable limitation period (3 years), and the uniform stamp duty for a DPN remain unchanged. Banks need not fear that attestation will create unintended legal or financial consequences.

Oct/Nov 2006

55. A bank grants a term loan to a partnership firm. The documentation set used is the one pre-printed for "Individual Borrowers". A partner later disputes the loan's terms. What is the most likely legal consequence for the bank?

(A) The loan becomes interest-free.
(B) The bank's legal position is weakened due to the use of an incorrect document set.
(C) The partnership firm is automatically converted to a proprietorship for the loan.
(D) There is no consequence as the signatures are valid.

Ans :

(B) The bank's legal position is weakened due to the use of an incorrect document set.
The selection of the correct set of documents is a fundamental step. Using documents meant for an individual borrower for a partnership firm is a significant error. The terms, clauses, and representations in an individual's form are different from those required for a partnership, creating a serious legal loophole that could weaken the bank's enforceability.

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May/June 2012

56. Consider the best practices for filling and executing loan documents. Which of the following are recommended?

1. The entire document should be filled in the same ink and by the same person.
2. Overwriting should be avoided; alterations should be cut, rewritten, and authenticated.
3. Blank fields in pre-printed forms can be left unfilled for later use.
4. The executant's signature should be obtained on all pages of the document.

(A) 1, 2 and 4 only
(B) 1, 2 and 3 only
(C) 1, 3 and 4 only
(D) 2, 3 and 4 only

(A) It has remained an NPA for a period of more than 90 days.
(B) It has remained in the substandard category for a period of twelve months.
(C) It has remained an NPA for a period of more than six months but less than twelve months.
(D) The realizable value of security is less than 10% of the outstanding.

Ans :

(B) It has remained in the substandard category for a period of twelve months.
A doubtful asset represents a more severe stage of non-performance than a substandard asset. An asset is classified as doubtful if it has remained in the substandard category for a period of 12 months. This classification implies that the collection or liquidation of the debt in full is highly questionable and improbable based on current information.

May/June 2014

18. What is a 'Loss Asset'?
(A) An asset that has remained in the doubtful category for more than three years.
(B) An asset where the borrower has been declared insolvent.
(C) An asset identified as uncollectible by the bank, auditors, or RBI, but not yet fully written off.
(D) An unsecured asset that has remained an NPA for more than twelve months.

Ans :

(C) An asset identified as uncollectible by the bank, auditors, or RBI, but not yet fully written off.
A loss asset is one where a loss has been identified by the bank, internal or external auditors, or through RBI inspection. It is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there might be some salvage or recovery value. It should be written off.

Oct/Nov 2007

19. Under what circumstance does a working capital borrowal account become an NPA, even if the unit is operational and the borrower's financial position seems satisfactory?
(A) If the stock statements submitted to the bank are older than one month.
(B) If the account's sanctioned limit is not renewed by the bank on its annual due date.
(C) If drawings are permitted based on stock statements older than three months for a continuous period of 90 days.
(D) If a single drawing temporarily exceeds the drawing power calculated from current stock statements.

Ans :

(C) If drawings are permitted based on stock statements older than three months for a continuous period of 90 days.
The health of a working capital account is tied to current assets. Drawing power is calculated from stock statements not older than 3 months. If the outstanding balance is based on drawing power from statements older than 3 months, it is deemed an 'irregular drawing'. Permitting such irregularity for a continuous 90 days renders the account an NPA.

May/June 2025

20. If a regular or ad hoc credit limit is not reviewed or renewed, what is the maximum period from its due date or ad hoc sanction date after which it will be treated as an NPA?
(A) 180 days
(B) 90 days
(C) 120 days
(D) 365 days

Ans :

(A) 180 days
Banks must review or regularize regular and ad hoc credit limits promptly. While a delay beyond three months is undesirable, a firm timeline is set for NPA classification. If the limits are not reviewed or renewed within 180 days from the due date or the date of ad hoc sanction, the account must be treated as an NPA.

NODIA

Oct/Nov 2009

21. What is the guiding principle for asset classification when a borrower has been granted multiple credit facilities by a bank?
(A) Each facility is classified independently based on its own record of recovery.
(B) Only the largest facility's classification determines the status of all other facilities.
(C) Facilities with tangible security are classified separately from unsecured facilities.
(D) Asset classification is done on a borrower-wise basis, not a facility-wise basis.

bank before any provisions or deductions are made, providing a complete picture of the bank's lending exposure.

Oct/Nov 2018

13. Which of the following formulas correctly represents the calculation of 'Net NPA'?
(A) Gross NPA divided by Gross Advances.
(B) Gross NPA minus Provisions held for standard assets.
(C) Gross NPA minus (Provisions held + DICGC/ECGC claims received and pending adjustment + Part payments in suspense).
(D) Gross Advances minus Gross NPA.

Ans :

(C) Gross NPA minus (Provisions held + DICGC/ECGC claims received and pending adjustment + Part payments in suspense).
Net NPA is calculated by subtracting specific deductions from the Gross NPA amount. These deductions include provisions held for NPA accounts, claims received from DICGC/ECGC pending adjustment, part payments received and kept in a suspense account, and balances in the Sundries Account for restructured accounts. This reflects the actual uncovered risk to the bank.

May/June 2016

14. Which of the following items is NOT deducted from Gross Advances to arrive at Net Advances?
(A) Provisions held in the case of NPA accounts.
(B) DICGC/ECGC claims received and held pending adjustment.
(C) Part payment received and kept in Suspense Account.
(D) Provisions held for standard assets.

Ans :

(D) Provisions held for standard assets.
To calculate Net Advances, specific deductions are made from Gross Advances. These include provisions for NPAs, DICGC/ECGC claims pending adjustment, and part payments in suspense. However, provisions made for standard assets are not deducted from Gross Advances to arrive at either Net Advances or Net NPAs, as they are general provisions against potential future risks.

Oct/Nov 2025

15. For the purpose of NPA computations, what does the term 'Gross Advances' encompass?
(A) All outstanding loans and advances including refinance received but excluding rediscounted bills and technical write-offs.
(B) All outstanding loans and advances, excluding rediscounted bills and technical write-offs.
(C) All outstanding loans and advances, including rediscounted bills and advances written off at Head Office.
(D) Only standard assets and substandard assets, excluding doubtful and loss categories.

Ans :

(A) All outstanding loans and advances including refinance received but excluding rediscounted bills and technical write-offs.
'Gross Advances' is defined as all outstanding loans and advances, which includes advances for which refinance has been received. However, it specifically excludes bills that have been rediscounted and advances that have been technically written off at the Head Office level. This definition ensures a consistent and accurate base for calculating NPA ratios.

May/June 2019

16. With effect from March 31, 2005, how is a 'Substandard Asset' defined?
(A) An asset that has remained an NPA for a period of twelve months.
(B) An asset that has remained an NPA for a period less than or equal to twelve months.
(C) An asset where the loss has been identified but not written off.
(D) An asset that has remained in the doubtful category for a period of twelve months.

Ans :

(B) An asset that has remained an NPA for a period less than or equal to twelve months.
A substandard asset is the first category of non-performing assets. It is defined as an asset that has been classified as an NPA for a duration of 12 months or less. Such assets exhibit well-defined credit weaknesses that jeopardize debt liquidation, suggesting a distinct possibility that the bank will sustain some loss if deficiencies are not corrected.

Oct/Nov 2014

17. An asset is classified as a 'Doubtful Asset' under which of the following conditions, effective from March 31, 2005?

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(D) No facility is classified as NPA if the PACS is financially sound.

Ans :

(A) Only the particular credit facility granted to the PACS that is in default is classified as NPA.
When dealing with PACS/FSS under on-lending schemes, the facility-wise NPA rule applies, which is an exception to the usual borrower-wise norm. Only the specific credit facility to the PACS that is in default (e.g., for two crop seasons for short duration crops) is classified as NPA. Other facilities to the same PACS remain unaffected.

May/June 2017

26. Which of the following advances are exempt from being treated as NPAs, provided there is adequate security margin?
(A) Advances against gold ornaments and government securities.
(B) Advances against term deposits, NSCs eligible for surrender, IVPs, and KVPs.
(C) Advances against mortgage of unencumbered residential property.
(D) Advances against the security of agricultural land.

Ans :

(B) Advances against term deposits, NSCs eligible for surrender, IVPs, and KVPs.
A specific exemption from NPA classification is provided for advances that are secured by certain liquid instruments. These include a bank's own term deposits, National Savings Certificates (NSCs) eligible for surrender, Indira Vikas Patras (IVPs), and Kisan Vikas Patras (KVPs). Advances against gold ornaments and government securities are not covered by this exemption.

Oct/Nov 2005

27. For project loans where a moratorium on interest payment is available during the gestation period, when does the interest become 'due' for the purpose of NPA calculation?
(A) From the date of the first disbursement of the loan.
(B) From the first quarter after the project is commissioned.
(C) Only after the moratorium or gestation period is over.
(D) On the anniversary date of the loan sanction.

Ans :

(C) Only after the moratorium or gestation period is over.
In project finance, a moratorium on interest payment is common during the initial implementation phase. For NPA calculation purposes, the interest is not considered 'due' during this moratorium. It only becomes 'due' after the specified moratorium or gestation period ends. The 90-day overdue clock for NPA classification starts only after this post-moratorium due date.

May/June 2020

28. With effect from the year ending March 31, 2006, how are advances guaranteed by a State Government treated for asset classification if they become overdue?
(A) They are exempt from NPA classification indefinitely.
(B) They are classified as NPA only if the State Government repudiates the guarantee.
(C) They attract asset classification and provisioning norms if overdue for more than 90 days.
(D) They are immediately classified as a loss asset.

Ans :

(C) They attract asset classification and provisioning norms if overdue for more than 90 days.
Unlike advances guaranteed by the Central Government, those guaranteed by State Governments are not exempt from prudential norms. Since March 31, 2006, if interest or principal on a State Government guaranteed advance remains overdue for more than 90 days, the advance must be subjected to the standard asset classification and provisioning norms.

Oct/Nov 2015

29. For project loans, deferment of the Date of Commencement of Commercial Operations (DCCO) can affect the asset's classification. What is the general treatment for such loans during a prescribed deferment period?
(A) They are immediately classified as substandard.
(B) They can be treated as 'Standard' assets, subject to making usual provisions.
(C) They are classified as doubtful assets until commercial operations begin.

May/June 2015

38. What is the general provision requirement for a 'Substandard Asset' on the total outstanding amount, before considering the security status?
(A) 10%
(B) 25%
(C) 20%
(D) 15%

Ans :

(D) 15%
For a substandard asset, a general provision of 15% on the total outstanding balance is required. This provision is made without making any allowance for the availability of ECGC guarantee cover or other securities. An additional provision is required only for the portion of the exposure that is identified as unsecured.

Oct/Nov 2012

39. If an exposure classified as 'substandard' is also identified as 'unsecured', what is the total provisioning requirement on that unsecured portion?
(A) 25%
(B) 15%
(C) 20%
(D) 40%

Ans :

(A) 25%
Unsecured exposures carry a higher risk. For a substandard asset, a general provision of 15% is applicable. However, if the exposure is also unsecured, it attracts an additional provision of 10%. Therefore, the total provisioning requirement for an unsecured substandard exposure becomes 25% (15% general + 10% additional) of the outstanding balance.

May/June 2011

40. For provisioning purposes, an exposure is defined as 'unsecured' when the realizable value of the security is not more than what percentage of the outstanding exposure?
(A) 10% ab initio
(B) 25% ab initio
(C) 50% ab initio
(D) 0% ab initio

Ans :

(A) 10% ab initio
The definition of 'unsecured exposure' is precise. It refers to an exposure where the realizable value of the tangible security, as assessed by the bank or approved valuers, is not more than 10% of the outstanding exposure from the very beginning (ab initio). Guarantees and comfort letters are not considered tangible security for this purpose.

Oct/Nov 2020

41. In the context of determining unsecured advances for infrastructure projects, how are annuities under a Build-Operate-Transfer (BOT) model treated?
(A) They are always treated as intangible securities, and the advance is considered unsecured.
(B) They are not considered as security at all.
(C) They are valued at 50% of their net present value for security purposes.
(D) They are treated as tangible securities if the bank's right to receive them is legally enforceable and irrevocable.

Ans :

(D) They are treated as tangible securities if the bank's right to receive them is legally enforceable and irrevocable.
While rights, licenses, and authorizations are generally not considered tangible security, an exception is made for specific revenue streams in infrastructure projects. Annuities under BOT road/highway projects are treated as tangible securities, provided the bank's right to receive these annuities is legally enforceable and irrevocable, thereby securing the advance to that extent.

May/June 2022

42. Match the category of standard asset in List-I with its corresponding minimum provisioning rate in List-II.

List-I (Asset Category)		**List-II (Provisioning Rate)**	
P.	Farm Credit & SMEs	1.	1.00%
Q.	Commercial Real Estate (CRE)	2.	0.40%
R.	CRE - Residential Housing (CRE-RH)	3.	0.25%
S.	All other loans (e.g., Medium Enterprises)	4.	0.75%

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Ans :

(C) If the minimum amount due is not paid fully within 90 days from the payment due date.
The NPA norm for credit cards is specifically tied to the 'minimum amount due'. A credit card account is classified as an NPA if the cardholder fails to pay the minimum amount due, as stated in the credit card statement, in full within 90 days from the payment due date mentioned in that statement.

May/June 2006

34. A substandard account that has been restructured is eligible for upgradation to the 'standard' category only after what condition is met?
(A) After 50% of the principal is repaid.
(B) Immediately upon the approval of the restructuring package by the board.
(C) After the borrower's credit rating is upgraded by an external agency.
(D) After a specified period of one year of satisfactory performance from the first payment due date post-restructuring.

Ans :

(D) After a specified period of one year of satisfactory performance from the first payment due date post-restructuring.
Upgradation of a restructured NPA is not immediate. The account must demonstrate sustained performance. It is eligible to be upgraded to the standard category only after a 1-year period of satisfactory performance. This period begins from the due date of the first payment of interest or principal, whichever is earlier, under the new terms.

Oct/Nov 2017

35. What is the mandatory provisioning requirement for an asset classified as a 'Loss Asset'?
(A) 100% of the outstanding amount.
(B) 50% of the outstanding amount.
(C) 25% of the outstanding amount.
(D) 15% of the outstanding amount.

Ans :

(A) 100% of the outstanding amount.
A loss asset is considered uncollectible. Therefore, prudential norms require the bank to take the most conservative approach. If such an asset is permitted to remain in the books for any reason instead of being written off, a full provision of 100% of the outstanding amount must be made against it.

May/June 2008

36. For a 'Doubtful Asset', what is the required provision on the portion of the advance that is not covered by the realizable value of security (i.e., the unsecured portion)?
(A) 25%
(B) 100%
(C) 40%
(D) 15%

Ans :

(B) 100%
The unsecured portion of a doubtful asset represents the highest level of credit risk, as there is no collateral to fall back on. Consequently, regulatory norms mandate a 100% provision for the extent to which the advance is not covered by the realizable value of the security to which the bank has a valid recourse.

Oct/Nov 2013

37. | Period for which the advance has remained in 'doubtful' category | Provision requirement (%) |

Period for which the advance has remained in 'doubtful' category	Provision requirement (%)
Up to 1 year	25%
1 to 3 years	40%
More than 3 years	100%

Based on the table, what is the provisioning requirement for the secured portion of a loan that has been classified as 'doubtful' for 2.5 years?
(A) 25%
(B) 100%
(C) 40%
(D) 15%

Ans :

(C) 40%
The provisioning for the secured portion of a doubtful asset is time-dependent. According to the provided table, if an asset has remained in the doubtful category for a period between one and three years, the required provision on the secured portion is 40%. Since 2.5 years falls within this bracket, the applicable rate is 40%.

NODIA

(D) The asset classification is frozen until the revised DCCO.

Ans :

(B) They can be treated as 'Standard' assets, subject to making usual provisions.
RBI has provided norms for project implementation delays. If the DCCO needs to be deferred for reasons beyond the borrower's control, banks can treat the project loan as a 'Standard' asset for a prescribed period. This is subject to certain conditions and making the usual provisions, allowing viable projects a realistic timeframe for completion.

May/June 2013

30. What is the income recognition norm for projects under implementation that have been classified as 'substandard' assets?
(A) Income can be recognized on an accrual basis.
(B) No income can be recognized until the project is completed.
(C) Income can be recognized only on a realization (cash) basis.
(D) 50% of the income can be recognized on an accrual basis, and 50% on a cash basis.

Ans :

(C) Income can be recognized only on a realization (cash) basis.
For project loans under implementation, income recognition depends on asset classification. While 'standard' project loans can have income recognized on an accrual basis, if the asset is classified as 'substandard', the bank must switch to a cash basis. Income can only be recognized when it is actually received, not merely accrued.

Oct/Nov 2021

31. In the case of post-shipment credit covered by the EXIM Bank's guarantee-cum-refinance programme, how is the advance treated for asset classification purposes?
(A) The entire advance is treated as an NPA if the exporter defaults.
(B) The advance is exempt from NPA classification due to the EXIM Bank guarantee.
(C) The advance may not be treated as an NPA to the extent that payment is received from EXIM Bank.
(D) The advance is classified as NPA, but no provision is required.

Ans :

(C) The advance may not be treated as an NPA to the extent that payment is received from EXIM Bank.
The EXIM Bank programme provides a guarantee for post-shipment export credit. If the exporter defaults and the bank invokes the guarantee, EXIM Bank pays the guaranteed amount. For asset classification, the portion of the advance covered by the payment received from EXIM Bank is not treated as an NPA, reducing the bank's classified assets.

May/June 2024

32. For export project finance, if an importer pays the dues to the bank's branch abroad but political reasons prevent remittance to India, what is the correct asset classification procedure?
(A) The account becomes NPA immediately upon the due date in the books of the Indian bank.
(B) The asset classification may be made after one year from the date the amount was deposited abroad.
(C) The account is exempt from NPA classification as the importer has paid.
(D) The account is classified as a loss asset due to the political risk.

Ans :

(B) The asset classification may be made after one year from the date the amount was deposited abroad.
In specific cases of export project finance where funds are blocked due to political issues, a special dispensation is available. If the bank can prove the importer paid the dues into the foreign branch before the account became NPA in India, the NPA classification can be deferred for 1 year from the deposit date.

Oct/Nov 2008

33. A credit card account is treated as a Non-Performing Asset (NPA) under which condition?
(A) If any amount is outstanding for more than 90 days from the statement date.
(B) If the total amount due is not paid within 30 days from the payment due date.
(C) If the minimum amount due is not paid fully within 90 days from the payment due date.
(D) If the cardholder exceeds the credit limit for a continuous period of 30 days.

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(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-3, Q-1, R-4, S-2
Banks must make general provisions on standard assets at specified rates. The correct rates are: 0.25% for Farm Credit and SMEs; 1.00% for the Commercial Real Estate (CRE) sector; 0.75% for the CRE-Residential Housing sector; and a general rate of 0.40% for all other loans not specifically categorized, which includes Medium Enterprises.

Oct/Nov 2023

43. What is the initial standard asset provisioning rate for housing loans extended at 'teaser rates'?
(A) 0.40%
(B) 0.75%
(C) 2.00%
(D) 1.00%

Ans :

(C) 2.00%
To address the higher risk associated with 'teaser rate' housing loans, where interest rates are low initially and reset higher later, the RBI has mandated a higher initial provision. Banks must make a provision of 2.00% on such loans. This rate reduces to 0.40% one year after the rates are reset to higher levels.

May/June 2021

44. | Likely Loss / EBID (%) | Incremental Provisioning Requirement (bps) |

Likely Loss / EBID (%)	Incremental Provisioning Requirement (bps)
Upto 15%	0
More than 15% and upto 30%	20 bps
More than 30% and upto 50%	40 bps
More than 50% and upto 75%	60 bps
More than 75%	80 bps

A bank has a credit exposure to a borrower with a high level of unhedged foreign currency exposure. The bank estimates the Likely Loss / EBID ratio to be 45%. Based on the table, what is the incremental provision required?
(A) 20 bps
(B) 40 bps
(C) 60 bps
(D) 80 bps

Ans :

(B) 40 bps
To cover the risk from unhedged foreign currency exposures, banks must make incremental provisions based on the Likely Loss / EBID ratio. As per the provided table, a ratio of 45% falls in the 'More than 30% and upto 50%' bracket. This requires an incremental provision of 40 basis points (0.40%) over extant standard asset provisioning.

Oct/Nov 2006

45. Under what circumstances can a bank utilize its 'Floating Provisions'?
(A) Only for contingencies under extraordinary circumstances with prior RBI permission.
(B) For making specific provisions for newly identified NPAs.
(C) For making the regulatory provisions for standard assets.
(D) To reverse from the profit and loss account to boost profitability.

Ans :

(A) Only for contingencies under extraordinary circumstances with prior RBI permission.
Floating provisions are not meant for regular or specific provisioning needs. Their use is restricted to contingencies arising from 'extraordinary circumstances' like natural calamities or systemic market meltdowns. Importantly, their utilization requires prior approval from the bank's Board and prior permission from the RBI, ensuring they are used only for exceptional, unforeseen events.

NODIA

May/June 2018

46. For a leased asset that has been classified as doubtful for more than three years, what is the provisioning requirement on the secured portion?
(A) 25%
(B) 100%
(C) 40%
(D) 15%

Ans :

(B) 100%

The provisioning for the secured portion of a doubtful leased asset increases with time. After remaining doubtful for more than 3 years, the chances of recovery are considered minimal, even from the secured portion. Therefore, the provisioning requirement escalates to 100% of the secured portion, similar to the treatment of other long-standing doubtful assets.

Oct/Nov 2022

47. What is the total provision required for a leased asset exposure that is identified as 'substandard' and is also 'unsecured'?
(A) 15%
(B) 20%
(C) 25%
(D) 40%

Ans :

(C) 25%
For leased assets, the provisioning rules mirror those for other advances. A substandard leased exposure requires a 15% provision. If that exposure is also unsecured, it attracts an additional provision of 10%. Thus, the total provision for an unsecured substandard lease exposure is 25% (15% + 10%).

May/June 2005

48. A bank has an advance of ₹4 lakh which has been doubtful for more than 2 years. The realizable value of security is ₹1.50 lakh, and the account has an ECGC cover of 50%. Calculate the total provision to be made as on March 31, 2022.
(A) ₹1.25 lakh
(B) ₹1.85 lakh
(C) ₹2.50 lakh
(D) ₹0.60 lakh

Ans :

(B) ₹1.85 lakh
First, find the unrealized balance: ₹4.00 lakh - ₹1.50 lakh = ₹2.50 lakh. The ECGC cover is on this unrealized balance: 50% of ₹2.50 lakh = ₹1.25 lakh. The net unsecured portion is ₹2.50 lakh - ₹1.25 lakh = ₹1.25 lakh, provisioned at 100% (₹1.25 lakh). The secured portion (₹1.50 lakh) is provisioned at 40% (since it is doubtful for >1 to 3 years), which is ₹0.60 lakh. Total provision = ₹1.25 lakh + ₹0.60 lakh = ₹1.85 lakh.

Oct/Nov 2010

49. If an advance guaranteed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) becomes non-performing, what is the provisioning requirement for the portion of the advance covered by the guarantee?
(A) A 15% provision is required.
(B) A 100% provision is required as it is an NPA.
(C) No provision needs to be made towards the guaranteed portion.
(D) A 20% provision is required.

Ans :

(C) No provision needs to be made towards the guaranteed portion.
The guarantee provided by CGTMSE offers significant credit risk mitigation. Consequently, when an advance covered by this scheme becomes an NPA, banks are not required to make any provision for the portion of the loan that is covered by the CGTMSE guarantee. Provisioning is only required for the amount outstanding in excess of the guaranteed portion.

May/June 2012

50. An advance of ₹10 lakh to an MSE unit, covered under CGTMSE, becomes doubtful for over 2 years. The value of security held is ₹1.50 lakh. The CGTMSE cover is 75% of the unsecured amount. Calculate the total provision required.
(A) ₹2.72 lakh
(B) ₹2.12 lakh
(C) ₹0.60 lakh
(D) ₹8.50 lakh

Ans :

(A) ₹2.72 lakh
The unsecured amount is ₹10 lakh - ₹1.50 lakh = ₹8.50 lakh. CGTMSE cover is 75% of ₹8.50 lakh = ₹6.38 lakh. The net uncovered/unsecured portion is ₹8.50 lakh - ₹6.38 lakh = ₹2.12 lakh, which requires 100% provision (₹2.12 lakh). The secured portion of ₹1.50 lakh requires 40% provision (doubtful >1 to 3 years), which is ₹0.60 lakh. Total provision = ₹2.12 lakh + ₹0.60 lakh = ₹2.72 lakh.

Oct/Nov 2019

51. | Based on the Country Risk provisioning schedule, what is the provisioning requirement for a country with an ECGC classification of 'C1'?

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Risk category	ECGC Classification	Provisioning Requirement (%)
High	B2	20%
Very high	C1	25%
Restricted	C2	100%
Off-credit	D	100%

(A) 20%
(B) 100%
(C) 25%
(D) 5%

Ans :

(C) 25%
Banks are required to make provisions for country risk based on a graded scale linked to ECGC classifications. According to the provided schedule, a country classified as 'C1' falls into the 'Very high' risk category. The corresponding provisioning requirement for net funded exposure to that country is 25% percent, reflecting the significant risk involved.

May/June 2007

52. What is the purpose of the "countercyclical provisioning buffer" created from the surplus of the Provisioning Coverage Ratio (PCR)?
(A) To make provisions for standard assets during economic booms.
(B) To be used for specific provisions for NPAs during a system-wide downturn, with RBI approval.
(C) To be written back to the Profit & Loss account to improve quarterly results.
(D) To meet the provisioning requirements for restructured assets.

Ans :

(B) To be used for specific provisions for NPAs during a system-wide downturn, with RBI approval.
The countercyclical provisioning buffer is a macro-prudential tool. It is created from provisions made in good times (surplus PCR) to be used during bad times. Its specific purpose is to make provisions for NPAs during periods of systemic downturn, helping to protect the banking system's stability. Its use requires prior approval from the RBI.

Oct/Nov 2016

53. What was the target Provisioning Coverage Ratio (PCR) that banks were advised to achieve with reference to their gross NPA position as on September 30, 2010?
(A) 50%
(B) 60%
(C) 70%
(D) 100%

Ans :

(C) 70%
The Provisioning Coverage Ratio (PCR) indicates the extent to which a bank has set aside funds to cover loan losses. To strengthen the banking system's resilience, the RBI advised banks to achieve a PCR of 70% of their gross non-performing assets. This was a prudential measure to ensure banks were adequately provisioned against their NPAs.

May/June 2023

54. What is a key requirement that banks must fulfill before writing off any loan account, either fully or partly?
(A) Obtain the consent of the borrower.
(B) Ensure the account has been a loss asset for at least one year.
(C) Get approval from the lead bank in case of a consortium.
(D) Extinguish all available means of recovery.

Ans :

(D) Extinguish all available means of recovery.
Writing off a loan is the last resort after all recovery efforts have failed. Prudential guidelines require banks to extinguish all available means of recovery before they proceed with a write-off. This ensures that the decision to write off an asset is taken only when the amount is deemed truly irrecoverable through normal legal and operational channels.

Oct/Nov 2018

55. Which of the following data points is part of the granular, system-generated information on NPAs that banks are required to maintain for effective NPA management?
(A) Opening balances, additions, reductions, closing balances, and provisions held.
(B) Only the opening and closing balances of NPAs.
(C) Only the details of accounts that were

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upgraded during the period.
(D) Only the total amount of technical write-offs.

Ans :

(A) Opening balances, additions, reductions, closing balances, and provisions held.
For robust NPA management and transparent reporting, banks need a detailed MIS. This system-generated data should include a complete movement analysis of NPAs, covering opening balances, fresh additions (slippages), reductions (through upgrades, recoveries, write-offs), closing balances, provisions held, and details of technical write-offs for various asset segments.

May/June 2016

56. A term loan payment was due on June 1. The borrower does not pay. On July 15 of the same year, how would the lender classify this account based on the incipient stress?

SMA Sub-categories	Principal or interest payment overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

(A) SMA-0
(B) SMA-1
(C) SMA-2
(D) NPA

Ans :

(B) SMA-1
The overdue period starts from June 2. The number of overdue days as of July 15 is 29 days in June (from 2nd to 30th) plus 15 days in July, which totals 44 days. According to the table for Special Mention Accounts, an account with principal or interest overdue for a period between 31 and 60 days is classified as SMA-1.

Oct/Nov 2025

57. Lenders are required to report credit information, including the classification of an account as a Special Mention Account (SMA), to the Central Repository of Information on Large Credits (CRILC) for all borrowers having an aggregate exposure of what amount and above?
(A) ₹1 crore and above
(B) ₹50 crore and above
(C) ₹5 crore and above
(D) ₹100 crore and above

Ans :

(C) ₹5 crore and above
The framework for the resolution of stressed assets emphasizes early identification. To facilitate this, lenders must report credit information to CRILC on a monthly basis. This reporting requirement, which includes SMA status, is mandatory for all borrowers where the lender's aggregate exposure (both fund-based and non-fund-based) is ₹5 crore and above.

May/June 2019

58. A consortium of banks is working on a Resolution Plan (RP) for a borrower. The RP is not implemented within 365 days from the commencement of the Review Period. According to the norms for delayed implementation, what is the total additional provision lenders must make?
(A) 35% of the total outstanding.
(B) 20% of the total outstanding.
(C) 15% of the total outstanding.
(D) 50% of the total outstanding.

Ans :

(A) 35% of the total outstanding.
To ensure timely implementation of Resolution Plans, a penal provisioning norm is in place. If an RP is not implemented within 180 days from the end of the Review Period, a 20% additional provision is required. If the delay extends to 365 days from the commencement of the Review Period, a further 15% provision is mandated, bringing the total additional provision to 35%.

Oct/Nov 2009

59. For a decision agreed under an Inter-Creditor Agreement (ICA) to be binding on all lenders, what are the minimum approval thresholds by value and by number?
(A) 66% by value and 51% by number.
(B) 90% by value and 75% by number.
(C) 75% by value and 60% by number.
(D) 60% by value and 75% by number.

Ans :

(C) 75% by value and 60% by number.
The Inter-Creditor Agreement (ICA) is a key tool for a collective resolution process. To prevent a few dissenting lenders from stalling the process, the framework specifies binding thresholds. Any

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decision agreed upon by lenders representing 75% by value of total outstanding credit facilities and 60% of lenders by number becomes binding on all lenders.

May/June 2014

60. Assertion (A): A compromise settlement where the time for payment of the settlement amount exceeds three months is considered an act of restructuring.
Reason (R): Restructuring is an act where a lender, for economic or legal reasons related to the borrower's financial difficulty, grants concessions to the borrower.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The reason (R) correctly defines restructuring as granting concessions due to financial difficulty. The assertion (A) gives a specific example of such a concession. Extending the payment timeline for a compromise settlement beyond three months is a modification of terms that provides relief to a financially distressed borrower, thus fitting the definition of restructuring.

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CHAPTER 29

Important laws Relating to Recovery of Dues

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Oct/Nov 2014

1. According to the legal framework for debt recovery, which of the following were the primary statutes used by banks for recovering dues from defaulting borrowers before the enactment of specialized laws like the DRT Act?

(A) The Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949

(B) The Indian Contract Act, 1872 and the Civil Procedure Code, 1908

(C) The SARFAESI Act, 2002 and the Companies Act, 1956

(D) The Transfer of Property Act, 1882 and the Indian Penal Code, 1860

Ans :

(B) The Indian Contract Act, 1872 and the Civil Procedure Code, 1908

Before specialized recovery laws were introduced, banks had to rely on general legal avenues for recovering dues from defaulting borrowers. The primary statutes used for this purpose were the Indian Contract Act, 1872, and the Civil Procedure Code, 1908, both of which had their own constraints and contributed to delays in the recovery process.

May/June 2005

2. The Recovery of Debts due to Banks and Financial Institutions Act, 1993 (DRT Act) was amended in 2019. What was the significant change made to the title of the Act?

(A) It was renamed the "Recovery of Debts and Bankruptcy Act".

(B) It was renamed the "Recovery of Debts and Securitisation Act".

(C) It was renamed the "Financial Assets and Debt Recovery Act".

(D) It was renamed the "Tribunals for Recovery of Debts Act".

Ans :

(A) It was renamed the "Recovery of Debts and Bankruptcy Act".

The original Act, enacted in 1993, was titled the 'Recovery of Debts due to Banks and Financial Institutions Act'. To broaden its scope and align it with evolving legal frameworks, the Act was amended in 2019, which included a change in its title to the "Recovery of Debts and Bankruptcy Act", reflecting its expanded mandate.

Oct/Nov 2021

3. What was the final verdict of the Supreme Court in the case of Union of India vs Delhi High Court Bar Association regarding the constitutional validity of the DRT Act, 1993?

(A) The Supreme Court declared the Act unconstitutional and void.

(B) The Supreme Court upheld the Delhi High Court's decision against the Act.

(C) The Supreme Court decided in favour of the constitutional validity of the DRT Act.

(D) The Supreme Court referred the matter back to the High Court for reconsideration.

Ans :

(C) The Supreme Court decided in favour of the constitutional validity of the DRT Act.

Although the Delhi High Court initially declared the DRT Act unconstitutional, the matter went on appeal to the Supreme Court. In the case of Union of India vs Delhi High Court Bar Association, the Supreme Court overturned the High Court's decision and ruled in favour of the constitutional validity of the DRT Act, 1993.

May/June 2011

4. Based on the judicial decisions discussed, what is the applicability of the Recovery of Debts and Bankruptcy Act, 1993, to different types of co-operative banks?

(A) The Act is applicable to all co-operative banks without exception.

(B) The Act is not applicable to any co-operative banks due to their separate recovery mechanisms.
(C) The Act is applicable only to Urban Co-operative Banks and not to Rural Co-operative Banks.
(D) The Act is not applicable to regular co-operative banks but is applicable to Multistate Co-operative Banks.

Ans :

(D) The Act is not applicable to regular co-operative banks but is applicable to Multistate Co-operative Banks.
The Supreme Court decided that the DRT mechanism is not applicable to the dues of most co-operative banks because their separate recovery mechanisms were found to be working satisfactorily. However, an exception was made, and the Act was deemed applicable to Multistate Co-operative Banks, bringing them under the jurisdiction of the Debt Recovery Tribunals.

Oct/Nov 2008

5. What is the minimum qualifying amount of debt for a case to be covered under the Recovery of Debts and Bankruptcy Act, 1993?
(A) The amount of debt due is ₹10 Lakh or more.
(B) The amount of debt due is ₹50 Lakh or more.
(C) The amount of debt due is ₹20 Lakh or more.
(D) The amount of debt due is ₹1 Crore or more.

Ans :

(C) The amount of debt due is ₹20 Lakh or more.
The Recovery of Debts and Bankruptcy Act, 1993, specifies a pecuniary jurisdiction for the Debt Recovery Tribunals. According to the Act, cases are covered where the amount of debt due to any bank or financial institution, or their consortium, is ₹20 Lakh or more. Cases below this threshold do not fall under the Act's purview.

May/June 2024

6. Which of the following entities is NOT included in the definition of a 'Bank' under the Recovery of Debts and Bankruptcy Act, 1993?
(A) A corresponding new bank
(B) A single-state co-operative bank
(C) A Regional Rural Bank
(D) A multi-State co-operative bank

Ans :

(B) A single-state co-operative bank
The definition of 'Bank' under the DRB Act, 1993, is specific and includes a banking company, a corresponding new bank, the State Bank of India, a Regional Rural Bank, and a multi-State co-operative bank. It explicitly excludes single-state co-operative banks, as they have their own separate recovery mechanisms which are not governed by this Act.

Oct/Nov 2015

7. According to the definition in the Recovery of Debts and Bankruptcy Act, 1993, which of the following is NOT considered a 'debt'?
(A) A liability payable under a decree of a civil court.
(B) An unsecured liability inclusive of interest.
(C) A liability towards debt securities unpaid after a 90-day notice.
(D) An amount recoverable from an employee who committed fraud and misappropriation.

Ans :

(D) An amount recoverable from an employee who committed fraud and misappropriation.
The definition of 'debt' under the Act is broad, covering liabilities arising from business activities, whether secured, unsecured, or under a court decree. However, judicial interpretation, as in the case of Bank of India vs Vijay Ramniklal, has clarified that money recoverable from an employee for fraud or misappropriation is not considered a 'debt' under this Act.

May/June 2019

8. Which of the following is a valid qualification for a person to be appointed as the Presiding Officer (PO) of a Debts Recovery Tribunal (DRT)?
(A) Is, or has been, or is qualified to be appointed as a District Judge.
(B) Has been a member of the Indian Legal Service for at least three years.
(C) Has held office as a Chairperson of an Appellate Tribunal for at least three years.
(D) Is qualified to be appointed as a Judge of a High Court.

Ans :

(A) Is, or has been, or is qualified to be appointed as a District Judge.
The DRB Act, 1993, specifies the eligibility criteria for the post of Presiding Officer of a DRT. A person is considered qualified for this appointment if he is, or has been, or possesses

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(D) Within 30 days

Once the borrower has fully paid the debt, the charge registered with CERSAI must be updated. The Act mandates that the ARC or the secured creditor must report the satisfaction of the charge to the Central Registrar. This reporting must be done within thirty days of the date of full payment or satisfaction of the charge.

May/June 2016

42. As per Section 31 of the SARFAESI Act, the provisions of the Act are not applicable to certain cases. Which of the following is explicitly mentioned as an exclusion?

(A) A mortgage by deposit of title deeds.
(B) Any security interest created in agricultural land.
(C) Hypothecation of vehicle stock.
(D) A pledge of shares and securities.

Ans :

(B) Any security interest created in agricultural land.

Section 31 of the SARFAESI Act lists several specific exclusions where the Act's provisions for enforcement of security interest cannot be applied. One of the most significant exclusions is any security interest that has been created on agricultural land. Such properties are kept outside the purview of direct enforcement action by secured creditors under this Act.

Oct/Nov 2014

43. What is the minimum amount of default required to initiate insolvency and liquidation proceedings for a corporate debtor under the Insolvency and Bankruptcy Code, 2016?

(A) ₹1 lakh
(B) ₹20 lakh
(C) ₹5 crore
(D) ₹1 crore

Ans :

(D) ₹1 crore

The Insolvency and Bankruptcy Code, 2016 (IBC) specifies a minimum default threshold for initiating the Corporate Insolvency Resolution Process (CIRP). The Code applies to matters relating to the insolvency and liquidation of corporate debtors where the minimum amount of the default is one crore rupees. This threshold was increased from the original one lakh rupees.

May/June 2005

44. What is the key distinction between a 'Financial Creditor' and an 'Operational Creditor' under the IBC, 2016?

(A) Financial creditors are those whose loans are secured by collateral, while operational creditors are those with unsecured debts.
(B) Financial creditors' debt is for goods or services provided on credit, while operational creditors' debt is a purely monetary loan.
(C) Financial creditors can vote in the CoC and initiate CIRP, while operational creditors can only initiate but not vote in the CoC.
(D) Financial creditors' debt is disbursed against the consideration for the time value of money, while operational creditors' debt arises from transactions on operations.

Ans :

(D) Financial creditors' debt is disbursed against the consideration for the time value of money, while operational creditors' debt arises from transactions on operations.

The IBC makes a fundamental distinction based on the nature of the debt. A financial debt is one disbursed against consideration for the time value of money (e.g., a loan). An operational debt arises from the provision of goods or services, including employment dues. This distinction determines the creditor's rights and role in the resolution process.

Oct/Nov 2021

45. Which of the following is NOT one of the four main institutional pillars of the Insolvency and Bankruptcy Code, 2016?

(A) Debt Recovery Tribunals (DRT)
(B) Insolvency and Bankruptcy Board of India (IBBI)
(C) Information Utilities (IU)
(D) Insolvency Professionals (IP)

Ans :

(A) Debt Recovery Tribunals (DRT)

The institutional infrastructure of the IBC rests on four key pillars: the regulator (IBBI), the professionals who conduct the process (IPs), the agencies that enroll IPs (IPAs), and the repositories of financial information (IUs). While DRTs act as Adjudicating Authorities for individuals and partnership firms under

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flexibility to the applicant bank or financial institution.

Oct/Nov 2012

13. When a defendant in a DRT proceeding wishes to claim a set-off against the applicant's demand, what is the procedural requirement?

(A) The claim for set-off can be made at any stage of the proceedings.

(B) The claim for set-off must be for an unascertained sum of money.

(C) The claim must be made in the written statement filed on the first hearing, unless permitted later by the Tribunal.

(D) The claim for set-off is treated as a separate suit and requires a new application.

Ans :

(C) The claim must be made in the written statement filed on the first hearing, unless permitted later by the Tribunal.

The Act requires a defendant who wishes to claim a set-off for a legally recoverable, ascertained sum of money to make such a claim in the written statement at the first hearing. If this deadline is missed, the claim can only be made later with the express permission of the Tribunal, ensuring proceedings are not unduly delayed.

May/June 2022

14. Under what circumstances may a DRT direct a defendant to furnish security as per Section 19(13A)?

(A) If the defendant files a counter-claim against the applicant bank.

(B) If the debt amount is unsecured and exceeds ₹1 Crore.

(C) If the defendant requests an adjournment of the hearing.

(D) If the defendant is about to dispose of any part of his property with intent to obstruct the execution of a potential order.

Ans :

(D) If the defendant is about to dispose of any part of his property with intent to obstruct the execution of a potential order.

Section 19(13A) empowers the tribunal to demand security from the defendant if it is satisfied that the defendant has an intent to obstruct, delay, or frustrate the execution of a future recovery order. This includes actions like attempting to dispose of or remove property from the tribunal's jurisdiction or causing damage to it.

Oct/Nov 2005

15. According to the DRB Act, a recovery certificate issued by the Presiding Officer is deemed to be a decree for what specific purpose against a company?

(A) For the initiation of winding-up proceedings against the company.

(B) For the appointment of a receiver for the company's assets.

(C) For the immediate arrest of the company's directors.

(D) For the automatic transfer of shares to the creditor bank.

Ans :

(A) For the initiation of winding-up proceedings against the company.

As per Section 19(22A), a recovery certificate issued by the Presiding Officer carries significant legal weight. It is deemed to be a decree or order of a court specifically for the purpose of initiating winding-up proceedings against a company registered under the Companies Act, or insolvency proceedings against an individual or partnership firm, as applicable.

May/June 2013

16. What is the mandatory pre-deposit amount required for a person to file an appeal before the Debt Recovery Appellate Tribunal (DRAT) against a DRT order?

(A) 25% of the amount of debt due, which can be waived completely by the DRAT.

(B) 50% of the amount of debt due, which the DRAT may reduce to not less than 25%.

(C) 75% of the amount of debt due, which cannot be reduced.

(D) A fixed amount of ₹10 Lakh, irrespective of the debt amount.

Ans :

(B) 50% of the amount of debt due, which the DRAT may reduce to not less than 25%.

Section 21 of the Act stipulates a pre-condition for filing an appeal to dissuade frivolous appeals aimed at delaying recovery. The appellant must deposit 50% of the amount due as determined by the DRT. The DRAT has the discretion to reduce this amount, but it cannot be less than 25% of the debt due.

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Ans :

(C) Not less than 75%

The SARFAESI Act provides a mechanism for investors (QB holders) to exercise control if an ARC fails to realise the assets. In case of non-realisation and non-repayment, Qualified Buyers holding not less than 75% of the total value of the Security Receipts issued under a particular scheme can call a meeting and pass resolutions that are binding on the ARC.

May/June 2015

34. Which of the following measures for asset reconstruction is an ARC currently NOT permitted to undertake until specific RBI guidelines are issued?

(A) To change or take over the management of the borrower's business.

(B) To reschedule the payment of debts payable by the borrower.

(C) To enforce the security interest in accordance with the SARFAESI Act.

(D) To sell or lease a part or whole of the business of the borrower.

Ans :

(D) To sell or lease a part or whole of the business of the borrower.

The SARFAESI Act lists several permissible measures for asset reconstruction. While it includes options like changing management, rescheduling debt, and enforcing security, the measure to sell or lease a part or the whole of the borrower's business is currently restricted. ARCs are not permitted to resort to this specific measure until the RBI issues the necessary guidelines.

Oct/Nov 2007

35. For an ARC to enforce a security interest, what is the required consent level from secured creditors?

(A) Consent of secured creditors holding not less than 60% of the amount outstanding.

(B) Consent of all secured creditors is mandatory.

(C) Consent of secured creditors holding not less than 75% of the amount outstanding.

(D) No consent is required; the ARC can act independently.

Ans :

(A) Consent of secured creditors holding not less than 60% of the amount outstanding.

When multiple creditors have a charge on the same asset, unilateral action is restricted. For the purpose of enforcing a security interest, the Act mandates that the consent of secured creditors representing not less than 60% in value of the amount outstanding to a borrower must be obtained. This collective decision-making process ensures fairness among creditors.

May/June 2006

36. A bank issues a notice under Section 13(2) of the SARFAESI Act to a defaulting borrower. The borrower submits a detailed objection, arguing that the classification of the account as NPA is incorrect. According to the guidelines laid down by the Supreme Court in the Mardia Chemicals case, what is the bank's obligation?

(A) The bank can ignore the objection and proceed with taking possession of the asset as the Act gives it full authority.

(B) The bank must apply its mind to the objection and communicate the reasons for non-acceptance to the borrower within 15 days.

(C) The bank must stop all proceedings and file a suit in the DRT to get the NPA classification confirmed by a judicial body.

(D) The bank must immediately accept the objection and reclassify the account as standard to avoid legal penalties for wrongful classification.

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Ans :

(B) The bank must apply its mind to the objection and communicate the reasons for non-acceptance to the borrower within 15 days.

The Supreme Court judgment in the Mardia Chemicals case established a crucial procedural safeguard for borrowers. It mandated that the secured creditor must consider any representation or objection from the borrower. If the objection is not accepted, the creditor must communicate the reasons for this decision to the borrower within 15 days of receiving the objection.

Oct/Nov 2017

37. When the sale proceeds of a secured asset are realized under the SARFAESI Act, what is the first item to be paid from the realized amount?

(A) The dues of the secured creditor, including principal and interest.

the doctrine does not apply, and a bank is not required to withdraw its DRT application before initiating action under SARFAESI.

Oct/Nov 2018

21. Which of the following activities is NOT a fundamental aspect for which the SARFAESI Act, 2002, provides a legal framework?
(A) Securitisation of financial assets.
(B) Reconstruction of financial assets.
(C) Enforcement of security interest for recovery of dues.
(D) Adjudication of criminal offences by bank employees.

Ans :

(D) Adjudication of criminal offences by bank employees.
The SARFAESI Act, 2002, was enacted to provide a legal framework for specific activities within the credit market. These primarily include the securitisation and reconstruction of financial assets, enforcement of security interests without court intervention, and the registration of security interests. It does not deal with the adjudication of criminal matters involving bank employees.

May/June 2023

22. What are the two conditions that constitute the 'qualifying amount' for the SARFAESI Act, 2002 to be applicable?
(A) The financial asset is more than ₹10 Lakh, and the amount due is 10% or more of the principal.
(B) The financial asset is more than ₹1 Lakh, and the amount due is 20% or more of the principal and interest.
(C) The financial asset is more than ₹20 Lakh, and the amount due is 25% or more of the principal.
(D) The financial asset is more than ₹5 Lakh, and the amount due is 50% or more of the principal and interest.

Ans :

(B) The financial asset is more than ₹1 Lakh, and the amount due is 20% or more of the principal and interest.
The SARFAESI Act has specific threshold conditions for its applicability. Firstly, the security interest for securing repayment must be for a financial asset of more than ₹1 Lakh. Secondly, the amount due (outstanding) must be 20% or more of the total principal amount and the interest accrued thereon, preventing its use for minor defaults.

Oct/Nov 2009

23. In the Mardia Chemicals vs Union of India case, the Supreme Court declared a part of Section 17(2) of the SARFAESI Act as unconstitutional. What did this provision originally mandate?
(A) It required the borrower to pay 100% of the claimed amount to file an appeal.
(B) It barred the borrower from approaching any court or tribunal.
(C) It allowed the lender to sell the asset without giving any notice to the borrower.
(D) It required the borrower to deposit 75% of the amount claimed by the lender to file an appeal with the DRT.

Ans :

(D) It required the borrower to deposit 75% of the amount claimed by the lender to file an appeal with the DRT.
The original Section 17(2) imposed a condition that a borrower wanting to appeal to the DRT against the lender's action of taking possession had to first deposit 75% of the claimed amount. The Supreme Court found this requirement to be unreasonable, oppressive, and arbitrary, leading to its amendment, which later stipulated a 50% deposit.

May/June 2007

24. Under the SARFAESI Act, 2002, what does the term 'Asset Reconstruction' signify?
(A) The acquisition of a right or interest in a financial assistance by an ARC for the purpose of realisation.
(B) The process of physically repairing a damaged secured asset.
(C) The restructuring of a bank's own balance sheet by selling its profitable loans.
(D) The process of providing additional loans to a non-performing borrower.

Ans :

(A) The acquisition of a right or interest in a financial assistance by an ARC for the purpose of realisation.
'Asset Reconstruction' is a core concept of the SARFAESI Act. It refers to the process where an Asset Reconstruction Company (ARC) acquires the rights or interests that a bank or financial

Oct/Nov 2016

17. Which of the following is NOT a mode of recovery that can be employed by the Recovery Officer upon receipt of a recovery certificate?

(A) Attachment and sale of the defendant's movable and immovable property.

(B) Declaring the defendant's company as insolvent without a court order.

(C) Arrest of the defendant and his detention in prison.

(D) Appointing a receiver for the management of the defendant's properties.

Ans :

(B) Declaring the defendant's company as insolvent without a court order.

The Recovery Officer has several powerful modes of recovery, including attachment and sale of property, arrest and detention, and appointment of a receiver. However, the power to declare a company insolvent is a judicial function that rests with the appropriate adjudicating authority (like NCLT under IBC) and cannot be exercised directly by the Recovery Officer.

May/June 2025

18. If a third person receives a notice from the Recovery Officer to pay a sum due to the defendant, but fails to make the payment, what is the legal consequence for that third person?

(A) They are deemed to be a defendant in default for the amount mentioned in the notice.

(B) They are liable for contempt of court.

(C) A penalty of 25% of the notice amount is automatically levied.

(D) Their property can be attached immediately without further notice.

Ans :

(A) They are deemed to be a defendant in default for the amount mentioned in the notice.

The Act provides a mechanism to recover money from the defendant's debtors. If a person, after receiving a valid notice from the Recovery Officer, fails to pay the specified amount, they are not discharged from their liability. Instead, they are legally treated as a 'defendant in default' with respect to that amount, making them subject to recovery proceedings.

Oct/Nov 2006

19. Which legal principle guides the procedural functioning of the Debt Recovery Tribunal and the Appellate Tribunal?

(A) They are strictly bound by the procedure laid down in the Code of Civil Procedure, 1908.

(B) They are strictly bound by the procedure in the Indian Evidence Act, 1872.

(C) They are guided by the principles of natural justice and can regulate their own procedure.

(D) They must follow the procedures established by the High Court of their respective jurisdiction.

Ans :

(C) They are guided by the principles of natural justice and can regulate their own procedure.

The DRB Act, 1993, grants procedural autonomy to the Tribunals. It explicitly states that the Tribunal and Appellate Tribunal are not bound by the rigid procedures of the Code of Civil Procedure, 1908. Instead, they are required to be guided by the principles of natural justice and are empowered to regulate their own procedures.

May/June 2014

20. What is the Supreme Court's stance on the 'Doctrine of Election' concerning simultaneous actions under the DRT Act and the SARFAESI Act, as decided in the M/s Transcore vs Union of India case?

(A) The doctrine of election does not apply as the two remedies are not inconsistent with each other.

(B) A bank must choose one remedy and cannot pursue both simultaneously.

(C) Withdrawal of a DRT application is a mandatory pre-condition for initiating SARFAESI action.

(D) A bank can only pursue SARFAESI action after exhausting all remedies under the DRT Act.

Ans :

(A) The doctrine of election does not apply as the two remedies are not inconsistent with each other.

The Supreme Court clarified that the doctrine of election requires the existence of two or more inconsistent remedies. It held that the remedies under the DRT Act and the SARFAESI Act are not inconsistent but complementary. Therefore,

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Oct/Nov 2011

29. Identify the INCORRECT statement regarding a 'Security Receipt' (SR) under the SARFAESI Act.
(A) It is issued by an ARC to a Qualified Buyer.
(B) It evidences the holder's undivided right, title, and interest in a financial asset.
(C) An ARC can issue Security Receipts to the general public through an IPO.
(D) The SRs are transferable in the market.

Ans :

(C) An ARC can issue Security Receipts to the general public through an IPO.
A Security Receipt is a specific instrument used in securitisation. While it is issued by an ARC to Qualified Buyers (QBs) and represents an interest in the underlying financial asset, the Act restricts its issuance. An ARC can issue SRs only to QBs and certain other specified investors, not to the general public.

May/June 2010

30. What is the minimum Net Owned Funds (NOF) an entity must have on an ongoing basis to be registered as an Asset Reconstruction Company (ARC) with the RBI?
(A) ₹100 crore
(B) ₹50 crore
(C) ₹200 crore
(D) ₹500 crore

Ans :

(C) ₹200 crore
The SARFAESI Act and RBI regulations impose strict financial requirements for the establishment and operation of an ARC. One of the key conditions for obtaining and maintaining a certificate of registration from the RBI is that the company must have Net Owned Funds (NOF) of not less than ₹200 crore on an ongoing basis.

Oct/Nov 2024

31. When an ARC acquires a financial asset from a bank by issuing a debenture as consideration, what is the rule regarding the interest rate and redemption period of that debenture?
(A) Interest rate must be at least 2% above the Bank Rate, and redemption cannot exceed 5 years.
(B) Interest rate must match the Bank Rate, and redemption cannot exceed 10 years.
(C) Interest rate cannot be less than the Bank Rate, and redemption cannot exceed 3 years.
(D) Interest rate cannot be less than 1.5% above the Bank Rate, and redemption cannot exceed 6 years.

Ans :

(D) Interest rate cannot be less than 1.5% above the Bank Rate, and redemption cannot exceed 6 years.
The Act specifies the terms for debentures issued by an ARC as payment for acquiring assets. The rate of interest on such a debenture must not be less than one and a half per cent above the prevailing Bank Rate. Furthermore, the period for the redemption of the debenture is capped and cannot exceed six years.

May/June 2020

32. If a bank gives notice of acquisition of a financial asset by an ARC to the obligor (borrower), what is the consequence if the obligor continues to make payments to the original bank instead of the ARC?
(A) The obligor gets a valid discharge of liability against both the bank and the ARC.
(B) The bank holds the payment in trust and must hand it over to the ARC.
(C) The obligor is penalised for non-compliance with the notice by paying a fine to the ARC.
(D) The payment is considered invalid, and the obligor must pay the ARC again, losing the amount paid to the bank.

Ans :

(B) The bank holds the payment in trust and must hand it over to the ARC.
When a notice of acquisition is served on the obligor, payments should be made directly to the ARC for a valid discharge. If the obligor makes a payment to the original bank instead, the bank receives this money on behalf of the ARC. The bank is legally obligated to hold these funds in trust and transfer them to the ARC.

Oct/Nov 2013

33. In the event of non-realisation of dues under a scheme, what percentage of Security Receipt (SR) holders by value are entitled to call a meeting whose resolutions will be binding on the ARC?
(A) Not less than 51%
(B) Not less than 60%
(C) Not less than 75%
(D) Not less than 66%

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institution holds in a loan or advance (a financial asset). This takeover is done for the specific purpose of recovering the outstanding dues.

Oct/Nov 2025

25. The SARFAESI Act defines 'Default' as "(i) non-payment of any debt...consequent upon which the account of such borrower is classified as non-performing asset...; or (ii) non-payment of any debt...with respect to debt securities after notice of ninety days...". Based on this definition, what is a crucial pre-condition for a secured creditor to enforce security interest against a borrower (excluding debt securities)?

(A) The borrower must have verbally refused to pay the debt.
(B) The debt must be outstanding for more than one year.
(C) The account must be classified as a non-performing asset (NPA) as per RBI guidelines.
(D) The default must be in relation to a secured debt of over ₹1 crore.

Ans :

(C) The account must be classified as a non-performing asset (NPA) as per RBI guidelines.
The definition explicitly links 'default' to the classification of the borrower's account as a non-performing asset (NPA) in the secured creditor's books. This classification, which must be done as per RBI guidelines, is a mandatory trigger for the secured creditor to gain the right of security enforcement under the SARFAESI Act for standard loan facilities.

May/June 2012

26. Which of the following is NOT included in the definition of a 'financial asset' under the SARFAESI Act, 2002?

(A) A claim to any debt, whether secured or unsecured.
(B) The physical stock-in-trade of a business without any charge created on it.
(C) A mortgage or charge on immovable property.
(D) A beneficial interest in movable property.

Ans :

(B) The physical stock-in-trade of a business without any charge created on it.
A 'financial asset' is defined as a debt or receivable. This includes claims to debt, debts secured by mortgages or charges, and any beneficial interest in property underlying such debts. However, a physical asset like stock-in-trade, over which no security interest (like a charge or hypothecation) has been created, does not qualify as a financial asset.

Oct/Nov 2019

27. What is the primary characteristic of 'hypothecation' as defined for the first time under the SARFAESI Act?

(A) It requires the delivery of possession of the movable property to the creditor.
(B) It can only be created on existing movable property, not future property.
(C) It is exclusively a fixed charge and cannot be a floating charge.
(D) It is a charge on movable property created without the delivery of possession to the creditor.

Ans :

(D) It is a charge on movable property created without the delivery of possession to the creditor.
The SARFAESI Act provides a formal legal definition of hypothecation. Its key feature is that it creates a charge on movable property (both existing and future) in favour of a secured creditor as security, but crucially, this is done without transferring the physical possession of the property from the borrower to the creditor.

May/June 2009

28. In the context of the SARFAESI Act, who is an 'Originator'?

(A) The bank or financial institution that transfers its financial asset to an ARC.
(B) The borrower who originally took the loan.
(C) The guarantor who provided security for the loan.
(D) The Asset Reconstruction Company (ARC) that acquires the financial asset.

Ans :

(A) The bank or financial institution that transfers its financial asset to an ARC.
The term 'Originator' refers to the owner of a financial asset who sells or transfers it. In a securitisation transaction under SARFAESI, the bank or financial institution that holds the outstanding loan (the financial asset) and transfers it to an Asset Reconstruction Company for recovery is known as the Originator.

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(B) Dues payable to the workmen of the borrower company, as per the Companies Act.
(C) Surplus amount to be paid to the borrower or any other person entitled to it.
(D) Costs, charges, and expenses for the preservation and protection of the security.

Ans :

(D) Costs, charges, and expenses for the preservation and protection of the security.
The SARFAESI Act specifies a clear order of appropriation for the sale proceeds of a secured asset. The amount realized is first applied towards the costs, charges, and expenses that were incidentally incurred by the secured creditor for the preservation, protection, and sale of the security, including insurance premiums. Only after this is the creditor's debt settled.

May/June 2021

38. If, after the sale of a secured asset under SARFAESI, there is still a balance due to the secured creditor, what is the recourse available to the creditor?
(A) The creditor can file an application before the DRT or a suit in a competent Civil Court for the balance.
(B) The creditor must write off the remaining balance as a loss as per SARFAESI rules.
(C) The creditor can seize any other unsecured property of the borrower without a court order under special provisions.
(D) The creditor can file a criminal complaint against the borrower for the shortfall, alleging fraudulent intent.

Ans :

(A) The creditor can file an application before the DRT or a suit in a competent Civil Court for the balance.
The enforcement of security under SARFAESI does not extinguish the creditor's right to recover the full debt. If the sale of the secured asset does not cover the entire outstanding dues, the secured creditor is entitled to initiate further legal proceedings to recover the remaining balance by filing an application before the DRT or a civil suit.

Oct/Nov 2022

39. What is the time limit within which a borrower, aggrieved by a measure taken by the secured creditor under Section 13(4), can make an application to the DRT?
(A) Within 30 days from the date of the measure.
(B) Within 60 days from the date of the measure.
(C) Within 45 days from the date of the measure.
(D) Within 90 days from the date of the measure.

Ans :

(C) Within 45 days from the date of the measure.
The SARFAESI Act provides a remedy for any person, including the borrower, who is aggrieved by the measures taken by a secured creditor (such as taking possession). Such a person has the right to make an application to the Debt Recovery Tribunal (DRT) within a period of forty-five days from the date on which the measure was taken.

May/June 2018

40. What is the primary purpose of the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI)?
(A) To register transactions of securitisation, asset reconstruction, and creation of security interests.
(B) To provide credit ratings for financial assets before they are securitised by an ARC.
(C) To act as an online auction platform for secured assets, ensuring transparent public sales.
(D) To mediate disputes between borrowers and secured creditors before they reach the DRT.

Ans :

(A) To register transactions of securitisation, asset reconstruction, and creation of security interests.
The Central Government established the Central Registry (CERSAI) under the SARFAESI Act for a specific purpose. Its main function is to serve as a central database for registering all transactions related to securitisation, asset reconstruction, and, most importantly, the creation of security interests, thereby preventing frauds involving multiple loans on the same property.

Oct/Nov 2020

41. Upon full payment of a secured debt, within what period must the secured creditor report the satisfaction of the charge to the Central Registrar (CERSAI)?
(A) Within 14 days
(B) Within 45 days
(C) Within 60 days
(D) Within 30 days

Ans :

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the qualifications required to be appointed as a District Judge. This ensures that the officer has the requisite judicial experience and legal knowledge.

Oct/Nov 2010

9. What is the maximum term of office for a Chairperson of a Debt Recovery Appellate Tribunal (DRAT)?
(A) Five years or until attaining the age of 65, whichever is earlier.
(B) Three years or until attaining the age of 70, whichever is earlier.
(C) Five years or until attaining the age of 70, whichever is earlier.
(D) Seven years or until attaining the age of 65, whichever is earlier.

Ans :

(C) Five years or until attaining the age of 70, whichever is earlier.
The Chairperson of a DRAT holds office for a specific tenure as defined in the Act. The term is for five years from the date of assuming office, or until the individual attains the age of seventy years, whichever occurs earlier. This is distinct from the term of a Presiding Officer of a DRT, which has a lower retirement age.

May/June 2017

10. Identify the correct statement regarding the jurisdiction of a Debt Recovery Tribunal (DRT) and a Debt Recovery Appellate Tribunal (DRAT).
(A) A DRT has jurisdiction to decide applications under Part III of the Insolvency and Bankruptcy Code, 2016.
(B) A DRT can entertain appeals against orders made by a DRAT.
(C) A DRAT has jurisdiction to decide applications from banks for recovery of debts.
(D) A DRAT can entertain original applications for debt recovery if the amount exceeds ₹1 Crore.

Ans :

(A) A DRT has jurisdiction to decide applications under Part III of the Insolvency and Bankruptcy Code, 2016.
The jurisdiction of the DRT is not limited to original applications for debt recovery from banks. It also extends to entertaining and deciding applications filed under Part III of the Insolvency and Bankruptcy Code, 2016, which deals with insolvency resolution and bankruptcy for individuals and partnership firms. DRATs are appellate bodies for DRT orders.

Oct/Nov 2023

11. Subsequent to the establishment of Debt Recovery Tribunals (DRTs), what is the status of a civil court's jurisdiction over recovery cases of ₹20 lakh and above?
(A) Civil courts have concurrent jurisdiction with DRTs.
(B) Civil courts can entertain such cases if both parties consent.
(C) Civil courts retain jurisdiction for unsecured loans, while DRTs handle secured loans.
(D) No civil court or other authority has jurisdiction, except for High Courts and the Supreme Court under specific articles.

Ans :

(D) No civil court or other authority has jurisdiction, except for High Courts and the Supreme Court under specific articles.
The DRB Act, 1993, creates a specific bar on the jurisdiction of civil courts. Once a DRT is established for a particular area, no civil court or other authority can exercise jurisdiction over recovery cases of ₹20 lakh and above. This bar does not, however, affect the writ jurisdiction of High Courts and the Supreme Court.

May/June 2008

12. Under the DRB Act, 1993, where can a bank or financial institution file an application for debt recovery?
(A) Only with the Tribunal where the bank's head office is located.
(B) With the Tribunal within whose jurisdiction the cause of action, wholly or in part, arises.
(C) Only with the Tribunal where the defendant permanently resides.
(D) With any Tribunal in the country, at the discretion of the applicant bank.

Ans :

(B) With the Tribunal within whose jurisdiction the cause of action, wholly or in part, arises.
Section 19(1) of the DRB Act provides several options for determining the appropriate jurisdiction. One of the key grounds is that the application can be filed with a Tribunal within whose local limits the cause of action, either wholly or in part, has arisen. This provides

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IBC, they are not considered one of the core institutional pillars of the ecosystem itself.

May/June 2011

46. What is the composition of the Board of the Insolvency and Bankruptcy Board of India (IBBI)?

(A) A Chairperson, one member from RBI, and three other members appointed by the government.

(B) A Chairperson, three ex-officio members from Ministries, one ex-officio member from RBI, and five other members.

(C) A Chairperson, one member from SEBI, and five other members representing various financial sectors.

(D) A Chairperson and nine other members nominated by the Supreme Court to ensure judicial oversight.

Ans :

(B) A Chairperson, three ex-officio members from Ministries, one ex-officio member from RBI, and five other members.

The IBBI's board is composed of a Chairperson, three ex-officio members from the Ministries of Finance, Corporate Affairs, and Law (not below Joint Secretary rank), one ex-officio member nominated by the RBI, and five other members nominated by the Central Government, of whom at least three must be whole-time members.

Oct/Nov 2008

47. What is the primary duty of an Insolvency Professional (IP) under the IBC, 2016?

(A) To provide new loans to the distressed company, known as interim finance.

(B) To represent the corporate debtor in all court cases as its legal counsel.

(C) To audit the financial statements of the corporate debtor to check for fraudulent transactions.

(D) To assist in the completion of insolvency resolution, liquidation, and bankruptcy proceedings.

Ans :

(D) To assist in the completion of insolvency resolution, liquidation, and bankruptcy proceedings.

Insolvency Professionals are the key functionaries who conduct the insolvency proceedings. Their primary duty is to manage the affairs of the corporate debtor during the process, assist the Committee of Creditors, and work towards a resolution, or manage the liquidation or bankruptcy process as per the provisions of the IBC and its regulations.

May/June 2024

48. Under the IBC, which body serves as the Adjudicating Authority (AA) for insolvency resolution of corporate persons?

(A) The National Company Law Tribunal (NCLT)

(B) Debt Recovery Tribunal (DRT)

(C) The High Court

(D) The Securities and Exchange Board of India (SEBI)

Ans :

(A) The National Company Law Tribunal (NCLT)

The IBC designates different Adjudicating Authorities for different entities. For all matters concerning the insolvency resolution and liquidation of corporate persons, including companies and LLPs, the designated Adjudicating Authority is the National Company Law Tribunal (NCLT) that has territorial jurisdiction over the corporate debtor's registered office.

Oct/Nov 2015

49. An appeal against an order of the National Company Law Appellate Tribunal (NCLAT) under the IBC can be filed before the Supreme Court within what period?

(A) Thirty days

(B) Forty-five days

(C) Sixty days

(D) Ninety days

Ans :

(C) Sixty days

The IBC provides a specific timeline for appeals to the highest court. An appeal against an order passed by the NCLAT on a question of law can be filed with the Supreme Court. The prescribed period for filing such an appeal is forty-five days from the date of the NCLAT's order, extendable by another fifteen days.

May/June 2019

50. The Corporate Insolvency Resolution Process (CIRP) proposes two independent stages. What are they?

(A) Insolvency Resolution Process and Liquidation

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(B) Investigation and Prosecution
(C) Restructuring and Merger
(D) Debt Counseling and Fresh Finance

Ans :

(A) Insolvency Resolution Process and Liquidation
The IBC framework for corporate debtors involves two distinct stages. The first is the Insolvency Resolution Process, where financial creditors try to find a way to rescue the business. If this process fails or is not deemed viable, the second stage, Liquidation, is initiated, where the debtor's assets are sold to pay off creditors.

Oct/Nov 2010

51. What is the maximum duration, including time for legal proceedings, for the completion of a Corporate Insolvency Resolution Process (CIRP) under the IBC?
(A) 180 days
(B) 270 days
(C) 365 days
(D) 330 days

Ans :

(D) 330 days
The CIRP is a time-bound process. It must be completed within 180 days, with a possible one-time extension of 90 days. However, the law mandates that the entire process, including any time spent in legal proceedings, must be concluded within a maximum outer limit of 330 days from the insolvency commencement date to ensure speedy resolution.

May/June 2017

52. Under what circumstance does the Adjudicating Authority (AA) order the liquidation of a corporate debtor?
(A) When the corporate debtor makes a profit for one quarter, indicating it can now pay its debts.
(B) When a resolution plan is not received within the prescribed insolvency resolution process period.
(C) When the Committee of Creditors (CoC) decides to liquidate the debtor with a minimum 51% voting share at any time.
(D) When an operational creditor with dues over ₹1 crore requests liquidation directly from the AA.

Ans :

(B) When a resolution plan is not received within the prescribed insolvency resolution process period.
Liquidation is initiated when the resolution process fails. One of the primary triggers for a liquidation order by the AA is when no resolution plan is received by the Resolution Professional before the expiry of the maximum permitted period for the CIRP. This indicates that a rescue of the company is not feasible.

Oct/Nov 2023

53. The Pre-Packaged Insolvency Resolution Process (PPIRP) under IBC is applicable to which category of corporate debtors?
(A) All public limited companies listed on a major stock exchange.
(B) Large corporations with debt over ₹1000 crore, classified as systemically important.
(C) Corporate debtors classified as micro, small, or medium enterprises (MSMEs).
(D) Only foreign companies operating in India through a registered subsidiary.

Ans :

(C) Corporate debtors classified as micro, small, or medium enterprises (MSMEs).
The PPIRP is a special, faster insolvency resolution framework introduced as an alternative to CIRP. Its applicability is specifically limited to corporate debtors that are classified as Micro, Small, or Medium Enterprises (MSMEs) under the MSMED Act, 2006, aiming to provide a less disruptive and quicker resolution for them.

May/June 2008

54. What is the minimum default amount for the applicability of insolvency and bankruptcy provisions for individuals and partnership firms under the IBC?
(A) ₹10,000
(B) ₹1,00,000
(C) ₹20,00,000
(D) ₹1,000

Ans :

(D) ₹1,000
Part III of the IBC, which deals with insolvency and bankruptcy for individuals and partnership firms, has a much lower default threshold compared to corporate debtors. The provisions

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of this part apply to cases where the amount of the default is not less than one thousand rupees, making it accessible for smaller debt amounts.

Oct/Nov 2012

55. Which of the following is considered an 'excluded asset' and cannot be part of the estate of a bankrupt individual under the IBC?
(A) An unencumbered single dwelling unit of a prescribed value.
(B) A luxury car owned by the bankrupt, if it is used for personal transport.
(C) Shares and stocks held in a demat account, up to a value of ₹1 lakh.
(D) A commercial property given on rent, if it is the sole source of income.

Ans :

(A) An unencumbered single dwelling unit of a prescribed value.
The IBC protects certain basic assets of an individual from being sold during bankruptcy to ensure a minimum standard of living. These 'excluded assets' include items like tools of trade, basic household furniture, and, significantly, an unencumbered single dwelling unit owned by the debtor, up to a value that may be prescribed by the government.

May/June 2022

56. During the Fresh Start Process for an individual under IBC, a moratorium period commences. What is the duration of this moratorium?
(A) 90 days from the date of admission of the application.
(B) 180 days from the date of admission of the application.
(C) 270 days from the date of admission of the application.
(D) 330 days from the date of admission of the application.

Ans :

(B) 180 days from the date of admission of the application.
The Fresh Start Process provides a moratorium to protect the debtor from creditor actions. This moratorium begins on the date the application is admitted by the Adjudicating Authority. It ceases to have effect at the end of a period of one hundred and eighty days from the admission date, unless the order is revoked earlier.

Oct/Nov 2005

57. What is the present monetary ceiling for civil disputes that can be settled through Lok Adalats?
(A) ₹10 lakh
(B) ₹50 lakh
(C) ₹20 lakh
(D) ₹1 crore

Ans :

(C) ₹20 lakh
Lok Adalats are an alternative dispute resolution mechanism with a specified pecuniary jurisdiction for settling civil disputes. While they can handle various cases, there is a monetary ceiling on the value of the disputes they can adjudicate. Currently, this ceiling for civil disputes that can be settled through this mechanism is set at ₹20 lakh.

May/June 2013

58. What is the legal status of an award passed by a Lok Adalat?
(A) It is deemed to be a decree of a civil court and is final and binding with no provision for appeal.
(B) It is an advisory opinion and not legally binding unless the parties mutually agree to it.
(C) It can be appealed in the High Court within 30 days on grounds of procedural error.
(D) It is valid only if ratified by the court from which the case was originally referred.

Ans :

(A) It is deemed to be a decree of a civil court and is final and binding with no provision for appeal.
An award made by a Lok Adalat holds significant legal authority. It is deemed to be a decree of a civil court or an order of any other court. A key feature of this award is its finality; it is binding on all parties to the dispute, and importantly, no appeal can be filed in any court against it.

Oct/Nov 2016

59. According to the Limitation Act, 1963, what happens if a suit is filed after the prescribed period of limitation has expired?
(A) The suit is admitted if the defendant does not raise the defence of limitation in their written statement.
(B) The suit is admitted upon payment of a late filing penalty fee by the plaintiff to the court registry.

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May/June 2023

5. As per Section 124 of the Indian Contract Act, 1872, a contract of indemnity is a promise to save another from loss caused by the conduct of whom?
(A) The promisor himself only
(B) Any other person only
(C) The promisor himself or any other person
(D) An act of God or a natural calamity

Ans :

(C) The promisor himself or any other person
Section 124 explicitly defines a contract of indemnity as one where a party promises to save the other from loss caused to him by the conduct of the promisor himself, or by the conduct of any other person. This definition specifically limits the scope to losses arising from human agency, not from natural events or accidents.

Oct/Nov 2014

6. In a contract of indemnity, what is the essential condition that the assured (indemnity holder) must fulfill to claim compensation?
(A) The assured must prove the promisor's intent to cause the loss.
(B) The assured must prove that a loss has occurred.
(C) The assured must have pre-paid the full amount of potential loss.
(D) The assured must obtain a court order before making a claim.

Ans :

(B) The assured must prove that a loss has occurred.
The very essence of a contract of indemnity lies in compensating for a loss. Therefore, for the indemnity holder to be able to enforce the contract and claim compensation from the indemnifier, it is a fundamental requirement that they must be able to prove that a loss has actually been suffered as stipulated in the contract.

May/June 2007

7. "A contract wherein A contracts to Indemnify B against the consequences of any proceedings which C may take against B in respect of a certain sum of ₹200, is called a contract of Indemnity."
Based on this illustration, who is the 'indemnifier'?
(A) B, the person to whom the promise is made.
(B) C, the person who may take proceedings.
(C) Both A and C jointly.
(D) A, the person giving the promise.

Ans :

(D) A, the person giving the promise.
In the provided illustration, A is the one making the promise to save B from a potential loss. The party who gives the promise to indemnify is known as the 'indemnifier'. Therefore, A assumes the role of the indemnifier, while B, the recipient of the promise, is the indemnity holder or the indemnified party.

Oct/Nov 2025

8. "A contract wherein A contracts to Indemnify B against the consequences of any proceedings which C may take against B in respect of a certain sum of ₹200, is called a contract of Indemnity."
In the context of this example, who is the 'indemnity holder'?
(A) B
(B) A
(C) C
(D) The court overseeing the proceedings

Ans :

(A) B
The indemnity holder, also known as the indemnified, is the party to whom the promise of protection against loss is made. In the given scenario, A promises to protect B from the financial consequences of legal proceedings initiated by C. Thus, B is the person who holds the right to be indemnified and is the indemnity holder.

May/June 2019

9. While all insurance contracts are conceptually contracts of indemnity, they are not dealt with under Section 124 of the Indian Contract Act. Why is this so?
(A) Because insurance contracts always involve more than two parties, which is legally complex.
(B) Because insurance contracts are exclusively governed by international law and treaties.
(C) Because Section 124 only covers losses caused by human conduct, not other events like fire or accidents.
(D) Because insurance contracts do not require the policyholder to prove a tangible financial loss.

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CHAPTER 30
Contracts of Indemnity

May/June 2012

1. According to the introductory principles of indemnity, what is the fundamental meaning of the word 'indemnity'?
(A) To provide a guarantee
(B) To save from losses
(C) To secure a creditor
(D) To assume a primary liability

Ans :

(B) To save from losses
The term 'indemnity' literally means 'to save from losses'. A contract of indemnity is designed to protect a party from financial loss that may occur due to a specified event. This core concept establishes the purpose of such a contract, which is primarily for the reimbursement of a loss suffered by the indemnity holder.

Oct/Nov 2019

2. A contract of indemnity is classified as a contingent contract because its performance is dependent on what?
(A) The happening or non-happening of some event
(B) The pre-payment of a premium by the promisee
(C) The primary liability of a principal debtor
(D) The mutual agreement of at least three parties

Ans :

(A) The happening or non-happening of some event
A contract of indemnity is a type of contingent contract because the indemnifier's obligation to perform the promise (i.e., to compensate for the loss) is triggered only upon the occurrence or non-occurrence of a future uncertain event. This contingency, which is the loss itself, is the central feature that activates the contract's provisions.

May/June 2016

3. Which sections of the Indian Contract Act, 1872, specifically address the law regarding indemnity?
(A) Sections 120 and 121
(B) Sections 122 and 123
(C) Sections 124 and 125
(D) Sections 126 and 127

Ans :

(C) Sections 124 and 125
The statutory framework for contracts of indemnity in India is primarily contained within Sections 124 and 125 of the Indian Contract Act, 1872. Section 124 provides the definition of a contract of indemnity, while Section 125 outlines the rights of the indemnity holder. These sections form the core legal basis for such contracts in India.

Oct/Nov 2008

4. The legal framework for indemnity in India, as interpreted by the Courts, is considered to be:
(A) Exhaustively covered by Sections 124 and 125 of the Indian Contract Act, leaving no room for judicial interpretation.
(B) Narrower than what is stated in the Indian Contract Act, with courts actively limiting its application.
(C) Identical to the law of guarantee, with no legal or practical distinction between the two concepts.
(D) Much wider than what is stated in the Indian Contract Act, developed through principles of equity.

Ans :

(D) Much wider than what is stated in the Indian Contract Act, developed through principles of equity.
The law of indemnity is not considered exhaustive as defined in the Indian Contract Act. Indian courts have applied principles of equity to broaden its scope beyond the literal text of the Act. This has led to a more developed and comprehensive legal understanding of indemnity through various judicial pronouncements and precedents over time.

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(C) The suit shall be dismissed, even if limitation has not been set up as a defence.
(D) The suit is converted into an application for arbitration if the underlying contract has an arbitration clause.

Ans :

(C) The suit shall be dismissed, even if limitation has not been set up as a defence.
Section 3 of the Limitation Act, 1963, imposes a mandatory duty on the court. It declares that any suit instituted, appeal preferred, or application made after the prescribed period of limitation has expired must be dismissed by the court. This dismissal is obligatory, regardless of whether the defendant has raised limitation as a defence.

May/June 2025

60. The schedule to the Limitation Act specifies a twelve-year period 'To enforce payment of money secured by a mortgage...' and a thirty-year period 'By a mortgagee for foreclosure'. Based on these provisions, what is the period of limitation for a bank to file a suit to recover money secured by a mortgage on an immovable property?
(A) Twelve years
(B) Three years
(C) Thirty years
(D) Thirty days

Ans :

(A) Twelve years
The schedule to the Limitation Act, 1963, provides specific time limits for different types of legal actions. For a suit to enforce the payment of money that is secured by a mortgage or any other charge on an immovable property, the prescribed period of limitation is twelve years, starting from when the money sued for becomes due.

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Ans :

(C) Because Section 124 only covers losses caused by human conduct, not other events like fire or accidents.
Section 124 of the Indian Contract Act specifically defines indemnity in the context of loss caused by the "conduct of the promisor himself, or by the conduct of any other person." Insurance contracts, however, often cover losses from events like fire, perils of the sea, or accidents, which are not caused by human conduct, hence they fall outside this specific definition.

Oct/Nov 2011

10. Ms. G's government promissory note was forged by her broker, Mr. A, who then endorsed it to a bank. The bank, in good faith, got a new note from the Public Debt Office. Ms. G sued the Government for damages and won. The Government then sued the bank. What was the legal basis for the court holding the bank liable to indemnify the Government?
(A) Under common law right of indemnity, the bank was responsible for the injury to Ms. G's rights.
(B) The bank was found to be a direct party to the original fraud committed by Mr. A.
(C) The bank had previously signed an express indemnity bond with the Government for such transactions.
(D) The amount involved was too large for the Government to bear, necessitating a transfer of liability.

Ans :

(A) Under common law right of indemnity, the bank was responsible for the injury to Ms. G's rights.
This scenario is based on the `Secretary of State vs Bank of India Ltd.` case. The court held the bank liable based on an implied or common law right of indemnity. By presenting the forged note, the bank caused an injury to the rights of a third party (the government). The principle is that a person is liable to indemnify for actions taken at their request which inadvertently harm others.

May/June 2021

11. How many parties are typically involved in a contract of indemnity?
(A) One
(B) Three
(C) Four
(D) Two

Ans :

(D) Two
A contract of indemnity is a bilateral agreement involving two parties. These parties are the 'indemnifier', who is the person making the promise to compensate for the loss, and the 'indemnity holder' or 'indemnified', who is the person receiving the promise of protection. This is a key feature distinguishing it from a contract of guarantee.

Oct/Nov 2010

12. Which of the following statements incorrectly describes the distinction between a contract of indemnity and a contract of guarantee?
(A) An indemnity has two parties, while a guarantee has three parties.
(B) An indemnity involves three contracts, while a guarantee involves only one contract.
(C) In an indemnity, the liability is primary, while in a guarantee, the surety's liability is secondary.
(D) An indemnity is for reimbursement of loss, while a guarantee is for the security of the creditor.

Ans :

(B) An indemnity involves three contracts, while a guarantee involves only one contract.
This statement is incorrect as it reverses the facts. A contract of indemnity consists of only one contract between the indemnifier and the indemnity holder. In contrast, a contract of guarantee involves three distinct contracts: one between the creditor and principal debtor, one between the creditor and surety, and one between the surety and principal debtor.

May/June 2005

13. In a contract of guarantee, the liability of the surety is secondary. How does this differ from the liability of the indemnifier in a contract of indemnity?
(A) The indemnifier's liability is also secondary.
(B) The indemnifier has no direct liability.
(C) The indemnifier's liability is primary and independent.
(D) The indemnifier's liability is contingent upon the creditor's approval.

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Ans :

(C) The indemnifier's liability is primary and independent.
In a contract of indemnity, the indemnifier's liability is primary. The indemnifier is directly responsible to the indemnity holder for the loss. This contrasts with a contract of guarantee where the surety's liability is secondary, meaning it only arises upon the default of the principal debtor, who holds the primary liability to the creditor.

Oct/Nov 2022

14. Consider the following statements regarding contracts of indemnity and guarantee:
I. In a contract of indemnity, the risk is contingent, whereas in a guarantee, the liability is subsisting.
II. A contract of indemnity can only be express, whereas a contract of guarantee can be express or implied.
Which of the statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Ans :

(A) I only
Statement I is correct. An indemnity contract is activated by a contingent event (the loss), while a guarantee relates to a subsisting debt or duty. Statement II is incorrect because a contract of indemnity, just like a guarantee, can be either express (stated in words) or implied (inferred from the conduct of the parties or circumstances).

May/June 2018

15. What is the primary purpose of a contract of indemnity?
(A) To reimburse a party for a loss suffered
(B) To provide security to a creditor for a loan
(C) To ensure the performance of a promise
(D) To transfer ownership of an asset

Ans :

(A) To reimburse a party for a loss suffered
The fundamental purpose of entering into a contract of indemnity is the reimbursement of a loss. The indemnifier promises to make good any financial loss that the indemnity holder might suffer due to specified events. This is different from a guarantee, which is primarily aimed at providing security to a creditor against a debtor's default.

Oct/Nov 2016

16. What does it mean for a contract of indemnity to be 'implied'?
(A) It is a contract that is not legally enforceable in a court of law.
(B) It is a contract where the promise to indemnify is not stated in express terms but is inferred from conduct.
(C) It is a contract created directly by a court order or judicial decree.
(D) It is a contract that must be witnessed by at least two people to be considered valid.

Ans :

(B) It is a contract where the promise to indemnify is not stated in express terms but is inferred from conduct.
An implied contract of indemnity is one where the promise to save from loss is not explicitly written or spoken. Instead, the intention to indemnify is inferred from the conduct of the promisor, the relationship between the parties, or the specific circumstances of the transaction. The law presumes such a promise exists to ensure fairness.

May/June 2014

17. According to Section 125 of the Indian Contract Act, an indemnity holder, acting within the scope of his authority, is entitled to recover which of the following from the promisor?
(A) Only the principal amount of the loss, excluding any legal costs.
(B) All damages, all costs of suit, and all sums paid in a compromise.
(C) Only damages that were pre-approved by the promisor.
(D) A penalty amount in addition to the actual damages suffered.

Ans :

(B) All damages, all costs of suit, and all sums paid in a compromise.
Section 125 grants the indemnity holder the right to recover three specific types of payments from the promisor. These include all damages he is compelled to pay in a suit, all costs incurred in defending such a suit, and all sums paid as part of a prudent compromise, provided he acted within his authority.

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Oct/Nov 2007

18. Under what condition can an indemnity holder recover costs they were compelled to pay in a suit?

(A) If they acted as a prudent person would and did not contravene the promisor's orders.

(B) Only if the indemnifier personally attended all the relevant court hearings.

(C) Only if they won the lawsuit outright without making any form of compromise.

(D) If the costs incurred are less than 10% of the total damages awarded by the court.

Ans :

(A) If they acted as a prudent person would and did not contravene the promisor's orders.

For an indemnity holder to recover legal costs, Section 125 specifies certain conditions. The holder must have acted as a prudent person would in the absence of an indemnity contract. Furthermore, they must not have gone against any specific instructions given by the indemnifier regarding the conduct of the suit, or the indemnifier must have authorized it.

May/June 2025

19. An indemnity holder can recover sums paid under a compromise of a suit, provided the compromise was not contrary to the orders of the promisor and was:

(A) approved by the court in writing.

(B) less than the total potential liability.

(C) something a prudent person would have made.

(D) notified to the promisor within 24 hours.

Ans :

(C) something a prudent person would have made.

Section 125(iii) allows the recovery of sums paid in a compromise if two conditions are met. First, the compromise must not violate the indemnifier's orders. Second, the compromise must have been a prudent action for the promisee to take, even if there were no contract of indemnity, or it was authorized by the promisor.

Oct/Nov 2006

20. Besides damages, costs, and compromise sums, what other right may an indemnity holder have if they have incurred an absolute liability covered by the contract?

(A) The right to cancel the contract unilaterally.

(B) The right to claim double the amount of the liability.

(C) The right to seize the promisor's assets directly.

(D) The right to sue for specific performance.

Ans :

(D) The right to sue for specific performance.

If the indemnity holder has incurred a liability that is absolute and the contract of indemnity covers that specific liability, they are entitled to sue the indemnifier for specific performance. This means they can compel the indemnifier to fulfill their promise and discharge the liability, even before the indemnity holder has actually paid anything.

May/June 2009

21. The rights of an indemnity holder as laid out in Section 125 are subject to certain conditions. Which of the following is NOT one of those conditions?

(A) The indemnity holder must act within the scope of his authority.

(B) The indemnity holder must not contravene the specific directions of the promisor.

(C) The indemnity holder must be a resident of India.

(D) The actions taken must be prudent in the given circumstances.

Ans :

(C) The indemnity holder must be a resident of India.

The exercise of an indemnity holder's rights is conditional upon them acting within their authority and not disobeying the promisor's orders. The concept of prudence is also a guiding principle. However, the Indian Contract Act does not impose any condition related to the residency status of the indemnity holder for their rights to be enforceable.

Oct/Nov 2011

22. Regarding the commencement of an indemnifier's liability, what is the 'preferred view' among High Courts, even though differing opinions exist?

(A) Liability commences as soon as the contract is signed.

(B) Liability commences only when the indemnity holder actually incurs a loss.

(C) Liability commences when the indemnity holder can be compelled to pay, even if no

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payment is made.

(D) Liability commences upon the expiry of the contract period.

Ans :

(B) Liability commences only when the indemnity holder actually incurs a loss.

While there have been differing judicial opinions, the text indicates that the view to be preferred is that the indemnifier's liability begins only when the indemnity holder has actually suffered a quantifiable loss. The alternative view allows the holder to compel payment before suffering loss, but the former perspective is highlighted as the preferred one.

May/June 2010

23. What types of costs can an indemnity holder typically recover in addition to costs paid to solicitors?

(A) Only the non-refundable court filing fees and documentation charges.

(B) Personal living expenses and loss of income during the period of the lawsuit.

(C) The full salary of the indemnity holder for the duration of the legal proceedings.

(D) Travelling expenses and costs reasonably incurred in resisting or reducing the claim.

Ans :

(D) Travelling expenses and costs reasonably incurred in resisting or reducing the claim.

The general principle for recovering costs is that they should be such as a reasonable person would deem necessary to incur. This extends beyond just solicitor fees to include related expenses like travel and any other costs that were reasonably incurred in the process of defending, resisting, reducing, or ascertaining the claim against them.

Oct/Nov 2024

24. An indemnity holder enters into a compromise in a lawsuit without giving any notice to the indemnifier. The compromise is made in good faith and is not imprudent. According to the judgment in `Venkataramana vs Mangamma`, is the indemnifier bound by this compromise?

(A) Yes, because the compromise was bona fide and not imprudent.

(B) No, because no notice was given to the indemnifier.

(C) No, unless the indemnifier ratifies the compromise in writing.

(D) Yes, but only for 50% of the compromise amount.

Ans :

(A) Yes, because the compromise was bona fide and not imprudent.

The Madras High Court's decision in `Venkataramana vs Mangamma` established that even without notice to the indemnifier, a compromise will bind them. The key conditions are that the compromise is not contrary to the indemnifier's orders, is entered into in good faith (bona fide), without collusion, and is not an imprudent decision.

May/June 2017

25. Which of the following scenarios best illustrates the principle of implied indemnity?

(A) A bank explicitly requires a customer to sign a detailed indemnity bond to issue a duplicate draft.

(B) Two corporate parties sign a detailed contract specifying all conditions for indemnification in a merger.

(C) A person acts on another's request, and this act, not obviously wrongful, unintentionally harms a third party.

(D) An insurance company issues a standard fire policy that covers a commercial warehouse against damage.

Ans :

(C) A person acts on another's request, and this act, not obviously wrongful, unintentionally harms a third party.

Implied indemnity arises from the relationship or conduct of parties, not express words. When one person requests another to perform an act which is not manifestly tortious (wrongful) and that act causes injury to a third party, the law implies a promise from the person making the request to indemnify the person performing the act.

Oct/Nov 2005

26. "An act, done by one person at the instance of another, is not in itself manifestly tortuous to the knowledge of the person doing it, turns to be injurious to the rights of a third person, the person doing it is entitled to an indemnity from him who requested that it should be done."

This principle is the basis for which type of indemnity?

(A) Implied Indemnity

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(B) Express Indemnity
(C) Statutory Indemnity
(D) Contingent Indemnity

Ans :

(A) Implied Indemnity
The provided text describes a classic situation where a contract of indemnity is implied by law. The promise to indemnify is not explicitly stated but is inferred from the circumstances. The person who requested the act is held responsible for the unforeseen negative consequences suffered by the person who performed the act in good faith on their behalf.

May/June 2020

27. Assertion (A): Section 124 of the Indian Contract Act does not explicitly mention implied indemnity.
Reason (R): The concept of implied indemnity has been developed by courts through judicial precedents, such as in the case of `Secretary of State vs Bank of India`.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; Section 124 defines indemnity but does not specify its implied form. Reason (R) is also true, as cases like `Secretary of State vs Bank of India` are landmark judgments through which courts established the principle of implied indemnity. The reason correctly explains why implied indemnity is part of Indian law despite its absence from the section.

Oct/Nov 2015

28. A broker forges the endorsement on a government promissory note and sells it to a bank. The bank, acting in good faith, obtains a renewed note from the Public Debt Office. When the true owner sues and recovers damages from the state, the state in turn sues the bank. On what grounds can the state claim indemnity from the bank?
(A) Express indemnity
(B) Implied indemnity
(C) Contract of guarantee
(D) Vicarious liability

Ans :

(B) Implied indemnity
This case is a direct application of the principle of implied indemnity. The bank, by presenting the note for renewal, implicitly represented its title as valid. This action, done at the bank's instance, caused injury to the state (a third party). Therefore, the law implies a promise by the bank to indemnify the state for the loss it suffered.

May/June 2013

29. According to the judgment in `Gajanan Moreshwar vs Moreshwar Madan Mantri`, when does the liability of the indemnifier commence?
(A) Only after the promisee has fully paid for the entire quantified loss.
(B) As soon as the contract of indemnity is signed by both of the parties.
(C) As soon as the loss of the indemnified becomes absolute, certain or imminent.
(D) Only after a court issues a final and non-appealable decree against the promisee.

Ans :

(C) As soon as the loss of the indemnified becomes absolute, certain or imminent.
The ruling in `Gajanan Moreshwar vs Moreshwar Madan Mantri` is significant because it established that the indemnifier's liability begins as soon as the indemnity holder's loss becomes absolute and certain. Crucially, it is not necessary for the indemnity holder to have actually paid for the loss before they can seek enforcement of the indemnity.

Oct/Nov 2021

30. A bank filed a suit to recover ₹5,000 from the sale of a mortgaged property. It also sought a decree against the estate of a deceased defendant (defendant 2) for any potential deficit, anticipating that the sale proceeds would be insufficient. Based on the `Shankar Nimbaji vs Laxman Sapdu` case, can the bank sue for an anticipated deficit?
(A) Yes, the bank can sue for any potential or foreseeable future loss.
(B) Yes, but only if the anticipated deficit is proven to be more than 50% of the loan.
(C) No, unless the deceased defendant's legal heirs explicitly agree to the deficit claim.

Code:
(A) P-1, Q-2, R-3, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-4, Q-3, R-2, S-1
(D) P-2, Q-4, R-1, S-3

Ans :

(B) P-4, Q-2, R-1, S-3
(P) `Gajanan Moreshwar` established that liability commences when loss is absolute, not necessarily paid. (Q) `Shankar Nimbaji` ruled against suing for an anticipated, non-certain loss. (R) `Venkataramana vs Mangamma` held that a prudent, bona fide compromise is binding even without notice. (S) `Secretary of State` is the key case for implied indemnity.

Oct/Nov 2025

47. If an indemnity holder defends a suit after being authorized by the indemnifier, what costs can he recover?
(A) A maximum of 50% of the costs incurred.
(B) All costs he may be compelled to pay in that suit.
(C) Only the lawyer's fees as per the bar council's schedule.
(D) Only costs that were paid in advance by the indemnifier.

Ans :

(B) All costs he may be compelled to pay in that suit.
Section 125(ii) provides that if the indemnifier authorized the indemnity holder to bring or defend the suit, the indemnity holder is entitled to recover all costs that he was compelled to pay. This authorization removes the ambiguity and solidifies the indemnity holder's right to be fully reimbursed for the legal expenses incurred in the process.

May/June 2012

48. A contract of indemnity may be of which of the following types?
(A) Express or Implied
(B) Express only
(C) Implied only
(D) Statutory only

Ans :

(A) Express or Implied
A contract of indemnity can be either express or implied. An express contract is one where the terms are explicitly stated, either orally or in writing. An implied contract is one that is inferred from the conduct of the parties or the circumstances of the case, even without any explicit promise being made.

Oct/Nov 2014

49. A bank allows the operation of a partnership firm's current account by a new partner based on an indemnity from the other partners. What is the purpose of this indemnity?
(A) To ensure the new partner contributes a specified amount of capital to the firm.
(B) To cover the bank's standard operational costs for managing the current account.
(C) To protect the bank from any loss arising from disputes or unauthorized actions by the new partner.
(D) To guarantee the future profitability and commercial success of the partnership firm.

Ans :

(C) To protect the bank from any loss arising from disputes or unauthorized actions by the new partner.
When there are changes in the constitution of a partnership, such as the introduction of a new partner, there is a risk of internal disputes or unauthorized transactions. The bank takes an indemnity to protect itself from any financial loss that might occur due to such adverse developments within the partnership's management and operations.

May/June 2019

50. Which of the following statements about the application of indemnity contracts in banking is incorrect?
(A) Banks take indemnity for opening a standard savings account for a new customer.
(B) Banks take indemnity for issuing duplicate demand drafts.
(C) Banks take indemnity for settling death claims to heirs.
(D) Banks take indemnity for issuing duplicate pay orders.

Ans :

(A) Banks take indemnity for opening a standard savings account for a new customer.
Opening a standard savings account is a routine banking transaction that does not carry the specific type of risk that necessitates an indemnity bond.

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which attracts a higher stamp duty calculated 'ad valorem'—that is, based on the value of the obligation mentioned in the bond.

May/June 2008

35. Match the parties in List-I with their corresponding roles in List-II in the context of indemnity and guarantee contracts.

List-I

P. Indemnifier
Q. Indemnity Holder
R. Surety
S. Principal Debtor

List-II

1. Person whose default is guaranteed
2. Person who gives the guarantee
3. Person who gives the promise to save from loss
4. Person to whom the promise of indemnity is made

Code:

(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-3, S-4

Ans :

(A) P-3, Q-4, R-2, S-1

(P) The Indemnifier is the one who promises to save from loss. (Q) The Indemnity Holder is the one who receives this promise. (R) The Surety is the person who gives the guarantee in a guarantee contract. (S) The Principal Debtor is the person whose liability or default is being guaranteed by the surety.

Oct/Nov 2013

36. Consider the following statements regarding the features of indemnity and guarantee contracts:

I. A contract of indemnity involves two parties and one contract.
II. A contract of guarantee involves three parties and three contracts.
III. The liability of the indemnifier is primary, while the liability of a surety is secondary.

Which of the statements is/are correct?

(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Ans :

(D) I, II, and III

All three statements accurately describe the key distinctions between indemnity and guarantee. An indemnity has two parties (indemnifier, indemnified) and one contract. A guarantee has three parties (creditor, debtor, surety) and three underlying contracts. The indemnifier's liability is primary and direct, whereas a surety's liability is secondary, arising only upon the principal debtor's default.

May/June 2015

37. Which of the following pairs is incorrectly matched regarding the differences between indemnity and guarantee?

(A) Number of Parties : Indemnity (2), Guarantee (3)
(B) Nature of Liability : Indemnity (Primary), Guarantee (Secondary)
(C) Purpose of Contract : Indemnity (Security of creditor), Guarantee (Reimbursement of loss)
(D) Number of Contracts : Indemnity (One), Guarantee (Three)

Ans :

(C) Purpose of Contract : Indemnity (Security of creditor), Guarantee (Reimbursement of loss)

This pair is incorrectly matched. The purpose of a contract of indemnity is the reimbursement of a loss suffered by the indemnity holder. Conversely, the purpose of a contract of guarantee is to provide security to the creditor against the potential default of the principal debtor. The stated purposes have been swapped in this option.

Oct/Nov 2012

38. An indemnity holder is entitled to recover all of the following from the promisor, EXCEPT:

(A) All sums he may have paid under a prudent compromise of such suit.
(B) Any amount paid in a compromise that was contrary to the promisor's orders.
(C) All costs he may be compelled to pay in such suit, if he acted prudently.
(D) All damages he may be compelled to pay in a suit.

Ans :

(B) Any amount paid in a compromise that was contrary to the promisor's orders.

Section 125 of the Contract Act clearly stipulates that an indemnity holder cannot recover sums paid under a compromise if that compromise was

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(D) No, the bank cannot sue in anticipation that the sale proceeds will be insufficient.

Ans :

(D) No, the bank cannot sue in anticipation that the sale proceeds will be insufficient.
The judgment in `Shankar Nimbaji vs Laxman Sapdu` clarified that a party cannot sue merely in anticipation of a loss. The liability must be certain or imminent, not speculative. The bank's claim for a potential future deficit from the property sale was considered anticipatory and therefore not maintainable at that stage of the proceedings.

May/June 2024

31. In which of the following banking scenarios is an indemnity bond most commonly required from a customer?
(A) When a customer requests the issuance of a duplicate for a lost demand draft.
(B) When a customer opens a new savings account.
(C) When a customer applies for a credit card.
(D) When a customer withdraws cash from an ATM.

Ans :

(A) When a customer requests the issuance of a duplicate for a lost demand draft.
Banks insist on an indemnity from customers who have lost instruments like demand drafts, traveller's cheques, or FDRs. This is to protect the bank from potential loss if the original instrument is later presented for payment by a legitimate holder for value. The indemnity ensures the customer will reimburse the bank for any such loss.

Oct/Nov 2008

32. Why do banks often ask for a surety in addition to an indemnity bond when issuing a duplicate instrument for a substantial amount?
(A) It is a mandatory procedural requirement by the Reserve Bank of India for all banks.
(B) To have an additional layer of security, especially if the customer is not well-known to the bank.
(C) The indemnity bond is not considered legally valid in court without an accompanying surety.
(D) The surety is legally required to pay the ad valorem stamp duty for the indemnity bond.

Ans :

(B) To have an additional layer of security, especially if the customer is not well-known to the bank.
While an indemnity bond makes the customer liable, a surety provides a second source of recovery for the bank. For large amounts or when dealing with customers with a short banking history, the bank's risk is higher. Requiring a surety (a guarantor) adds an extra layer of financial protection against potential loss.

May/June 2006

33. Which of the following situations is another common instance where bankers insist on an indemnity bond?
(A) When providing a loan against property.
(B) When settling death claims to heirs of a deceased account holder.
(C) When opening a safe deposit locker.
(D) When issuing a new cheque book.

Ans :

(B) When settling death claims to heirs of a deceased account holder.
When an account holder dies, settling the claim and releasing funds to the legal heirs can be risky for the bank if there are disputes or other potential claimants. To protect itself from any future adverse claims, the bank often takes an indemnity bond from the heirs who are receiving the funds.

Oct/Nov 2017

34. What is the legal treatment of an indemnity document taken by a bank if it is witnessed?
(A) It is treated as an indemnity bond, liable for ad valorem stamp duty.
(B) It is treated as a simple, unstamped agreement with no legal force.
(C) It becomes legally invalid and unenforceable by the bank.
(D) It is treated as a promissory note, requiring a different legal process.

Ans :

(A) It is treated as an indemnity bond, liable for ad valorem stamp duty.
An indemnity document is typically stamped as a simple agreement. However, if the document is attested by a witness, its legal character changes. It is then classified as an indemnity bond,

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Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is a correct statement of the principle from the `Shankar Nimbaji` case. Reason (R) correctly states the legal principle that indemnity applies to certain or imminent losses, not speculative or anticipated ones. The reason provides the precise legal justification for why a suit based on an anticipated, uncertain deficit is not maintainable.

Oct/Nov 2009

43. When a bank issues a duplicate Fixed Deposit Receipt (FDR), it insists on an indemnity bond. What is the primary risk this indemnity bond is designed to mitigate for the bank?
(A) The risk of the customer defaulting on a separate, unrelated loan from the bank.
(B) The risk of the original FDR being found and presented for payment by another person.
(C) The risk of the interest rate changing unfavorably on the newly issued duplicate FDR.
(D) The risk of the customer deciding to prematurely close their account with the bank.

Ans :

(B) The risk of the original FDR being found and presented for payment by another person.
An FDR is a receipt for a deposit. If the original is lost and later found by someone who legally acquires it, that person might have a valid claim against the bank. The indemnity bond protects the bank by ensuring that if it has to pay on the original FDR after issuing a duplicate, the customer will reimburse the bank.

May/June 2016

44. Regarding the stamping of indemnity documents obtained by banks, which statement is correct?
(A) All indemnity documents must be stamped with ad valorem duty, regardless of witnesses.
(B) Indemnity documents are generally exempt from all forms of stamp duty in India.
(C) An indemnity is stamped as an agreement, but if witnessed, it is treated as a bond requiring ad valorem duty.
(D) The stamp duty is always a fixed nominal amount set by the central government.

Ans :

(C) An indemnity is stamped as an agreement, but if witnessed, it is treated as a bond requiring ad valorem duty.
The stamping requirement depends on the execution of the document. Typically, an indemnity is stamped as a simple agreement. However, the presence of a witness's attestation elevates its status to an 'indemnity bond', which then becomes liable for a higher, value-based (ad valorem) stamp duty as per the relevant stamp act in the state.

Oct/Nov 2018

45. Consider the following statements about the scope of Section 124 of the Indian Contract Act:
I. It covers losses arising from natural disasters like floods and earthquakes.
II. It covers losses caused by the conduct of the promisor or any other person.
Which of the statements is/are correct?
(A) I only
(B) II only
(C) Both I and II
(D) Neither I nor II

Ans :

(B) II only
Statement II is correct as it directly reflects the definition in Section 124. Statement I is incorrect because Section 124 is specifically limited to losses caused by human conduct. Losses from events like natural disasters, often covered by general insurance policies, fall outside the narrow scope of this particular section of the Contract Act.

May/June 2007

46. Match the legal case in List-I with the principle it establishes in List-II.
List-I
P. `Gajanan Moreshwar vs Moreshwar Madan Mantri`
Q. `Shankar Nimbaji vs Laxman Sapdu`
R. `Venkataramana vs Mangamma`
S. `Secretary of State vs Bank of India Ltd.`
List-II
1. A bona fide compromise binds the indemnifier even without notice.
2. A party cannot sue in anticipation of a speculative loss.
3. The principle of implied indemnity based on a party's request.
4. Indemnifier's liability commences when loss is absolute, certain or imminent.

NODIA

CHAPTER 31

Contracts of Guarantee & Bank Guarantee

Oct/Nov 2014

1. According to Section 126 of the Indian Contract Act, 1872, what is the primary purpose of a 'Contract of Guarantee'?

(A) To provide an indemnity against loss caused by a third party's actions.

(B) To perform the promise, or discharge the liability, of a third person in case of their default.

(C) To pledge goods as security for payment of a debt or performance of a promise.

(D) To create an agency relationship for commercial transactions.

Ans :

(B) To perform the promise, or discharge the liability, of a third person in case of their default. A Contract of Guarantee is defined as a contract to fulfill the promise or settle the liability of a third individual should they fail to do so. This contract can be either oral or written and serves to secure the creditor against the potential default of the principal debtor, with the guarantor stepping in to cover the obligation.

May/June 2007

2. In a Contract of Guarantee, who is the person in respect of whose default the guarantee is given?

(A) The principal debtor

(B) The surety

(C) The creditor

(D) The beneficiary

Ans :

(A) The principal debtor

The individual for whose non-performance the guarantee is provided is referred to as the 'principal debtor'. The 'surety' is the one who gives the guarantee, and the 'creditor' or 'beneficiary' is the person to whom the guarantee is given. The principal debtor holds the primary liability, which the surety agrees to cover upon default.

Oct/Nov 2025

3. As per Section 128 of the Indian Contract Act, 1872, what is the nature of the guarantor's liability?

(A) It is secondary to the principal debtor and arises only after all legal remedies against the debtor are exhausted.

(B) It is limited to the principal amount of the debt, excluding any interest or charges.

(C) It is co-extensive with that of the principal debtor, unless specified otherwise in the contract.

(D) It is contingent upon a formal declaration of the principal debtor's insolvency by a court.

Ans :

(C) It is co-extensive with that of the principal debtor, unless specified otherwise in the contract. Section 128 establishes that the surety's liability is co-extensive with the principal debtor's liability. This means the surety is liable for the same amount as the principal debtor unless the contract contains a specific provision limiting this liability. A creditor can proceed against the surety directly without first exhausting remedies against the principal debtor.

May/June 2019

4. An analysis of a Contract of Guarantee reveals that it involves two separate agreements. Which of the following correctly identifies these agreements?

(A) One express contract between the creditor and principal debtor, and one implied contract between the creditor and surety.

(B) Two express contracts, one between the surety and creditor, and another between the principal debtor and surety.

(C) Two implied contracts, one between the creditor and principal debtor, and another between the surety and creditor.

(D) One express contract between the surety and creditor, and one implied contract between the principal debtor and surety.

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Indemnities are taken in situations involving potential future loss from a specific event, such as a lost instrument being found or a dispute among heirs, not for basic account opening procedures.

Oct/Nov 2006

51. "In the indemnity taken by the bank the customer undertakes to protect the bank from any loss or damage and for costs incurred. In most states, these indemnities are stamped as an agreement. However, if they are witnessed, they would be treated as an indemnity bond thereby being liable for payment of ad valorem stamp duty."
According to this text, what triggers the requirement for ad valorem stamp duty on an indemnity document?
(A) The document being executed within a metropolitan city.
(B) The customer having a prior history of losing documents.
(C) The presence of a witness's attestation on the document.
(D) The amount of indemnity exceeding a certain threshold.

Ans :

(C) The presence of a witness's attestation on the document.
The provided text clearly distinguishes between an indemnity stamped as a simple agreement and one treated as an indemnity bond. The specific action that changes the classification and triggers the liability for the higher, value-based (ad valorem) stamp duty is the act of having the document witnessed. This formal attestation alters its legal character.

May/June 2021

52. "Customers of the bank who have lost a demand draft or travellers' cheque are required to give an indemnity before the issuance of a fresh instrument in lieu of the lost one. These indemnities are required since the bank has to protect itself from any subsequent claim made by a person who may have, for value, received these instruments."
What specific risk is the bank mitigating by taking this indemnity?
(A) The risk that the customer's account has insufficient funds.
(B) The risk that the original lost instrument is presented by a subsequent holder for value.
(C) The risk that the fresh instrument will also be lost by the customer.
(D) The risk that the customer will cancel the request for a new instrument.

Ans :

(B) The risk that the original lost instrument is presented by a subsequent holder for value.
The paragraph explicitly states that the purpose of the indemnity is to protect the bank from a "subsequent claim made by a person who may have, for value, received these instruments." This refers to the legal risk that the original, lost instrument might be negotiated and presented by a new, legitimate holder, forcing the bank to pay twice.

Oct/Nov 2010

53. "There are only two parties to a contract of indemnity and as such only one contract. However, in a contract of guarantee there are at least three contracts: one between the debtor and creditor, the other between the creditor and the surety and the third between the surety and the debtor."
Based on this information, what is the total number of contracts involved in a contract of guarantee?
(A) One
(B) Two
(C) At least three
(D) It depends on the number of sureties.

Ans :

(C) At least three
The provided text explicitly breaks down the contractual relationships within a contract of guarantee. It states that there are "at least three contracts" involved. These are the primary contract between the debtor and creditor, a secondary contract between the creditor and surety, and an implied contract between the surety and the debtor.

May/June 2005

54. A bank customer loses their Fixed Deposit Receipt (FDR) of ₹5,00,000. The customer is relatively new to the bank. To issue a duplicate FDR, the bank asks for an indemnity bond and also insists that a well-established, credible person stand as a surety. Why would the bank insist on a surety in this situation?

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contrary to the specific orders of the promisor (indemnifier). The right to recover compromise amounts is conditional upon not contravening the indemnifier's directions and the compromise being a prudent one.

May/June 2011

39. Arrange the following events in a typical scenario involving an implied indemnity as per the `Secretary of State vs Bank of India` case:

1. The bank presents the forged promissory note to the Public Debt Office.
2. The true owner, Ms. G, sues the Government and recovers damages.
3. The broker, Mr. A, forges the signature and endorses the note to the bank.
4. The Government sues the bank to be indemnified for the loss.

(A) 3, 1, 2, 4
(B) 1, 3, 4, 2
(C) 3, 2, 1, 4
(D) 2, 4, 3, 1

Ans :

(A) 3, 1, 2, 4
The logical sequence of events is as follows: first, the fraud is committed by the broker (3); next, the bank, now holding the forged note, presents it for renewal (1); then, the true owner discovers the fraud and successfully sues the government (2); finally, the government, having suffered a loss, sues the bank on an implied indemnity (4).

Oct/Nov 2020

40. What is the most accurate description of the legal status of the law on indemnity as presented in the Indian Contract Act?

(A) It is considered outdated and is no longer actively applied by Indian courts.
(B) It is not exhaustive and has been supplemented by judicial decisions based on equity.
(C) It is identical to the English law on indemnity without any local modifications.
(D) It is a complete and exhaustive code on the subject, leaving no gaps.

Ans :

(B) It is not exhaustive and has been supplemented by judicial decisions based on equity.
The text explicitly states that the law regarding indemnity in Sections 124 and 125 is not exhaustive. It further clarifies that its scope is much wider because courts, applying principles of equity, have developed the law through judgments over time. This makes it a dynamic area of law supplemented by case law.

May/June 2022

41. Evaluate the following statements related to the rights of an indemnity holder:

I. The indemnity holder can recover costs of a suit only if the indemnifier authorized him to defend the suit.
II. The indemnity holder can sue for specific performance if he has incurred an absolute liability.
III. A compromise made by the indemnity holder, even without notice to the indemnifier, can be binding.
IV. The rights of the indemnity holder are absolute and not subject to any conditions.

Which combination of statements is correct?
(A) I and IV only
(B) II and III only
(C) I, II, and III only
(D) All are correct

Ans :

(B) II and III only
Statement I is partially incorrect; authorization is one way, but acting prudently is another valid ground. Statement IV is incorrect as rights are subject to conditions like acting within authority. Statements II and III are correct. The right to sue for specific performance exists for absolute liability, and a bona fide compromise can be binding without notice.

Oct/Nov 2023

42. Assertion (A): A bank cannot sue a defendant for an anticipated deficit from the sale of a mortgaged property.
Reason (R): The liability of the indemnifier commences only when the loss becomes absolute, certain, or imminent, not when it is merely speculative.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

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is conditional upon the happening of a future uncertain event, which is the specific loss against which the indemnity has been provided. The indemnifier's liability is triggered only by this contingency.

May/June 2014

58. The person who gives the promise to save another from loss in a contract of indemnity is called the:
(A) Indemnifier
(B) Indemnified
(C) Surety
(D) Promisee

Ans :

(A) Indemnifier
In the terminology of a contract of indemnity, the party who makes the promise to compensate for a loss is known as the 'indemnifier'. This party is also referred to as the promisor. The party who receives this promise and is protected from the loss is called the 'indemnified' or the 'indemnity holder'.

Oct/Nov 2007

59. A bank issues a duplicate pay order to a customer who claims to have lost the original. The bank takes an indemnity bond from the customer. A week later, the original pay order is presented for payment by a third party who received it for goods sold. What is the bank's recourse?
(A) The bank can legally refuse to pay the third party because a duplicate has been issued.
(B) The bank must pay the third party and absorb the financial loss itself as an operational risk.
(C) The bank can pay the third party and then invoke the indemnity bond to recover the amount from its customer.
(D) The bank must ask the customer and the third party to settle the matter between themselves in court.

Ans :

(C) The bank can pay the third party and then invoke the indemnity bond to recover the amount from its customer.
The exact purpose of the indemnity bond is to protect the bank in this precise situation. If a legitimate claim on the original instrument arises, the bank may be obligated to honor it. The indemnity bond gives the bank the legal right to recover the full amount of this loss from the customer who received the duplicate.

May/June 2025

60. Assertion (A): The liability of an indemnifier is primary.
Reason (R): The indemnifier's liability is dependent on the prior default of a principal debtor.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
Assertion (A) is true; the indemnifier's liability in a contract of indemnity is primary and direct. Reason (R) is false because it describes the liability of a surety in a contract of guarantee, not an indemnifier. An indemnifier's liability arises from the occurrence of the indemnified event itself, not from the default of another person.

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(A) Because the Indian Contract Act mandates a surety for all duplicate instruments above a certain value.
(B) To have an official third party who can act as a witness for the signing of the indemnity bond.
(C) To formally verify the customer's identity and residential address for bank records.
(D) To have additional financial recourse as the amount is substantial and the customer is not well-known.

Ans :

(D) To have additional financial recourse as the amount is substantial and the customer is not well-known.
The text mentions that banks may ask for a surety when the amount is substantial or the customer is not well-known. A ₹5,00,000 FDR is a significant amount. Since the customer is new, the bank has limited information about their financial standing. The surety provides an additional layer of security, guaranteeing the customer's indemnity promise.

Oct/Nov 2022

55. Mr. X indemnifies Mr. Y against any losses from a lawsuit filed by Mr. Z. During the trial, Mr. Y, feeling the case is weak, agrees to a compromise settlement of ₹50,000 with Mr. Z without informing Mr. X. A reasonable person would have considered this a wise decision. Can Mr. Y recover the ₹50,000 from Mr. X?
(A) Yes, because the compromise was a prudent act.
(B) No, because he did not take Mr. X's permission.
(C) No, because any compromise is outside the scope of indemnity.
(D) Yes, but he can only recover half the amount, i.e., ₹25,000.

Ans :

(A) Yes, because the compromise was a prudent act.
According to Section 125 and related case law (`Venkataramana vs Mangamma`), an indemnity holder can recover sums paid in a compromise if it was a prudent action that a reasonable person would take in the absence of an indemnity contract. Even without notice or explicit permission, if the compromise was not imprudent, it is recoverable.

May/June 2018

56. Examine the following statements concerning indemnity and guarantee:
I. An indemnity contract has two parties, the indemnifier and the indemnified.
II. A guarantee contract has three parties: the creditor, the debtor, and the surety.
III. The liability in an indemnity contract is primary and direct.
IV. The liability of a surety in a guarantee contract is secondary and arises on default.
V. The purpose of an indemnity is to provide security, while a guarantee is for reimbursement.
Which of the statements are correct?
(A) I, II, III only
(B) I, II, IV, V only
(C) I, II, III, IV only
(D) All are correct

Ans :

(C) I, II, III, IV only
Statements I, II, III, and IV correctly outline the fundamental differences between indemnity and guarantee regarding parties and the nature of liability. Statement V is incorrect because it reverses the purposes; an indemnity is for reimbursement of loss, whereas a guarantee is for the security of the creditor, making this statement factually wrong.

Oct/Nov 2016

57. In the context of a contract of indemnity, the risk is described as 'contingent'. What does this imply?
(A) The risk is pre-existing and known to both parties at the time of the contract.
(B) The risk is certain to happen, and the contract is for scheduling the payment.
(C) The risk is dependent on a future, uncertain event, which is the loss.
(D) The risk and any resulting financial loss are shared equally between the two parties.

Ans :

(C) The risk is dependent on a future, uncertain event, which is the loss.
The term 'contingent' in relation to the risk in an indemnity contract means that the obligation to pay is not absolute from the beginning. It

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Ans :

(D) One express contract between the surety and creditor, and one implied contract between the principal debtor and surety.
A Contract of Guarantee is unique as it comprises two underlying agreements. The first is an express contract where the surety provides the guarantee to the creditor. The second is an implied contract where the principal debtor implicitly promises to indemnify the surety if the surety has to pay the debt on their behalf.

Oct/Nov 2006

5. In the case of Dodsal Ltd vs Krishak Bharati Co-operative Ltd, what principle was established regarding injunctions against the encashment of bank guarantees?
(A) An unconditional irrevocable bank guarantee can be encashed on demand without demur.
(B) Encashment can be stopped if the underlying contract dispute is under arbitration.
(C) Injunctions can be granted if the principal debtor provides alternative security to the court.
(D) Injunctions are granted if there is a minor discrepancy in the invocation documents.

Ans :

(A) An unconditional irrevocable bank guarantee can be encashed on demand without demur.
The case of Dodsal Ltd vs Krishak Bharati Co-operative Ltd affirmed that an injunction against the encashment of a bank guarantee is not granted without establishing fraud or irretrievable injustice. An unconditional and irrevocable bank guarantee is meant to be honoured on demand without delay or objection, ensuring the sanctity and commercial value of such instruments.

May/June 2021

6. According to Section 127 of the Indian Contract Act, what constitutes a valid consideration for a contract of guarantee?
(A) A past benefit provided to the principal debtor without any request from the surety.
(B) Any promise made or action taken for the benefit of the principal debtor at the surety's request.
(C) A nominal payment made by the creditor to the surety at the time of signing the guarantee.
(D) The social relationship between the surety and the principal debtor.

Ans :

(B) Any promise made or action taken for the benefit of the principal debtor at the surety's request.
Section 127 states that anything done or any promise made for the benefit of the principal debtor can be sufficient consideration for the surety to give the guarantee. This means the consideration does not have to flow directly to the surety; a benefit extended to the principal debtor at the surety's implied or express request suffices.

Oct/Nov 2010

7. Consider the following statements regarding the liability of a surety:
1. The surety is regarded as a favoured debtor.
2. The surety's liability includes interest owed by the principal debtor.
3. Once the surety pays the debt, they step into the shoes of the original creditor.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2 and 3

Ans :

(D) 1, 2 and 3
The surety is considered a 'favoured debtor', and their liability is co-extensive with the principal debtor, which includes any interest due. Upon fulfilling the obligation by paying the debt, the surety acquires the rights of the creditor against the principal debtor, a principle known as subrogation, allowing them to recover the amount paid.

May/June 2005

8. A creditor obtains a decree against both the principal debtor and the surety. Can the surety restrain the creditor from executing the decree against them until the creditor has exhausted all remedies against the principal debtor?
(A) No, the surety has no right to restrain execution against them.
(B) Yes, if the surety can prove the principal debtor has sufficient assets to cover the debt.
(C) No, unless the contract of guarantee explicitly provides for this condition.
(D) Yes, because the surety's liability is secondary.

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Ans :

(D) The validity period is when the default must occur, and the claim period is an additional time to lodge the claim.
The 'validity period' defines the timeframe within which the customer's default must happen for the guarantee to be triggered. The 'claim period' is an additional, subsequent period (e.g., 15-30 days) provided to the beneficiary to prepare and formally submit their claim to the bank after a default has occurred within the validity period.

May/June 2012

42. What was the effect of the amendment to Section 28 of the Indian Contract Act, effective from January 1, 1997, on bank guarantees?
(A) It allowed banks to set a very short claim period of one week.
(B) It made standard clauses that extinguished the beneficiary's right to sue after a short period illegal.
(C) It mandated that all bank guarantees must be valid for a minimum of three years.
(D) It required all bank guarantee disputes to be settled through arbitration.

Ans :

(B) It made standard clauses that extinguished the beneficiary's right to sue after a short period illegal.
Prior to the amendment, banks included clauses that required beneficiaries to enforce claims within a short period (e.g., 3-6 months), after which the bank's liability was extinguished. The 1997 amendment to Section 28 declared such clauses illegal. Now, the beneficiary can sue the bank within the standard limitation period after a valid invocation.

Oct/Nov 2014

43. Following the amendment to Section 28 of the Indian Contract Act, what is the period of limitation for a government department to sue a bank after a guarantee has been invoked and the bank has not paid?
(A) One year
(B) Three years
(C) Thirty years
(D) Twelve years

Ans :

(C) Thirty years

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The amendment restored the standard limitation periods under the Limitation Act, 1963. If a beneficiary invokes a guarantee within the claim period and the bank fails to pay, the beneficiary can sue. For government departments or municipal bodies, this limitation period is thirty years, while for all other parties, it is three years.

May/June 2007

44. What is the primary purpose of a bank obtaining a 'counter guarantee-cum-indemnity' from its customer when issuing a bank guarantee?
(A) To have a secondary guarantee in case the primary guarantee document is lost.
(B) To satisfy a regulatory requirement for issuing guarantees above a certain value.
(C) To transfer the bank's liability directly to the customer's other creditors.
(D) To ensure the bank can recover any amount it pays under the guarantee from the customer.

Ans :

(D) To ensure the bank can recover any amount it pays under the guarantee from the customer.
A counter guarantee is a separate agreement between the bank and its customer (the applicant). It provides the bank with a legal right to recover from the customer not only the principal amount paid to the beneficiary but also any associated costs, interest, and expenses, thereby indemnifying the bank against loss.

Oct/Nov 2025

45. Read the following excerpt from the Calcutta High Court in Road Machines (India) Pvt. Ltd. vs The Project and Equipment Corporation of India Ltd.: "A bank guarantee may be invoked in a commercial manner. The invocation would be sufficient and proper if the bank concerned understands that the guarantee is being invoked by the beneficiary, in terms of the guarantee."
What does this ruling imply about the process of invoking a bank guarantee?
(A) The invocation's substance and intent are more important than its exact phrasing.
(B) The invocation must be submitted on a specific, pre-approved form.
(C) The invocation is only valid if personally delivered by the beneficiary's CEO.
(D) The invocation must be as detailed and formal as a legal plaint.

Ans :

active and unsettled. The time for enforcement begins to run only when the account is closed and the balance is ascertained, or when the guarantor explicitly refuses to honour their commitment.

Oct/Nov 2007

13. What is the effect of the death of a surety on a continuing guarantee?

(A) The guarantee is immediately void for all transactions, both past and future.

(B) The surety's estate automatically becomes liable for all future transactions indefinitely.

(C) In the absence of a contract to the contrary, it operates as a revocation for future transactions.

(D) The creditor must find a new surety within 30 days for the guarantee to remain valid.

Ans :

(C) In the absence of a contract to the contrary, it operates as a revocation for future transactions.
Unless the contract specifies otherwise, the death of a surety acts as a revocation of a continuing guarantee concerning any transactions that take place after the death. The surety's estate remains liable for transactions that occurred before the death, but is not responsible for any new obligations incurred by the principal debtor thereafter.

May/June 2025

14. Why do banks often prefer to "break the running accounts" of a borrower upon receiving information of a guarantor's death?

(A) To calculate the interest owed by the deceased surety's estate.

(B) To initiate legal proceedings against the principal debtor immediately.

(C) To comply with a regulatory requirement to close all associated accounts.

(D) To prevent the application of the Rule in Clayton's Case from absolving the deceased surety's estate.

Ans :

(D) To prevent the application of the Rule in Clayton's Case from absolving the deceased surety's estate.
Upon a guarantor's death, the guarantee for future transactions is revoked. If the bank continues the running account, subsequent credits by the borrower would, under the Rule in Clayton's Case, be applied to the earliest debts. This could inadvertently clear the debt for which the deceased guarantor was liable, thus releasing their estate from the obligation.

Oct/Nov 2019

15. As per Section 133 of the Indian Contract Act, what is the consequence of any variance made in the terms of the contract between the principal debtor and the creditor without the surety's consent?

(A) The surety is discharged from liability for transactions subsequent to the variance.

(B) The entire contract of guarantee becomes void from its inception.

(C) The surety becomes liable for any additional risk arising from the variance.

(D) The surety's liability is reduced proportionally to the variance.

Ans :

(A) The surety is discharged from liability for transactions subsequent to the variance.
Section 133 protects the surety by stipulating that any change in the original contract's terms between the creditor and principal debtor, made without the surety's consent, will discharge the surety. This discharge applies to all transactions that take place after the unauthorized variance, as the surety did not agree to guarantee the modified contract.

May/June 2009

16. What is the legal effect on the surety's liability if the creditor enters into a contract with the principal debtor that results in the principal debtor's release from the debt?

(A) The surety's liability is reduced by half.

(B) The surety is also discharged from their liability.

(C) The surety becomes the new principal debtor.

(D) The surety remains fully liable for the original debt.

Ans :

(B) The surety is also discharged from their liability.
According to Section 134 of the Indian Contract Act, the surety is discharged if the creditor performs any act or enters into a contract that has the legal consequence of releasing the principal debtor. Since the surety's liability is ancillary to the principal debtor's, the extinguishment of the

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(D) Principal debtor's insolvency and creditor's financial distress.

Ans :

(C) Cases of fraud and special equities or irretrievable injustice.
The Supreme Court, in cases like UP Co-operative Federation vs Singh Consultant, has held that bank commitments must be honoured free from court interference to maintain trust in commerce. The courts will only intervene and grant an injunction in exceptional circumstances, which are primarily established cases of egregious fraud or situations of irretrievable harm or injustice.

May/June 2011

34. In the Texmaco Ltd. vs State Bank of India case, the bank issued an unconditional guarantee to STC on behalf of Texmaco. When STC invoked the guarantee, what was the High Court's ruling regarding the bank's obligation?
(A) The bank should wait for the dispute between STC and Texmaco to be resolved.
(B) The bank should only pay if STC provides proof of Texmaco's default.
(C) The bank's liability was suspended because Texmaco filed a suit for injunction.
(D) The bank must pay on 'first demand' without contestation, as stipulated in the guarantee.

Ans :

(D) The bank must pay on 'first demand' without contestation, as stipulated in the guarantee.
The Calcutta High Court held that since the guarantee document obliged the bank to pay on 'first demand' and 'without contestation, demur or protest', the bank had to honour its commitment. The court emphasized that the bank's obligation was independent of any disputes between Texmaco and STC, reinforcing the autonomous nature of the guarantee.

Oct/Nov 2020

35. A company provided a bank guarantee to the Maharashtra Electricity Board. Subsequently, a winding-up petition was filed against the company. The Supreme Court had to decide on the bank's liability. What was the court's final decision?
(A) The bank remains liable and must honour the guarantee, as a legal discharge of the debtor does not absolve the guarantor.
(B) The bank is discharged from its liability as the principal debtor is being liquidated.
(C) The bank must pay the liquidator, who will then settle the Board's claim.
(D) The bank's liability is suspended until the winding-up process is complete.

Ans :

(A) The bank remains liable and must honour the guarantee, as a legal discharge of the debtor does not absolve the guarantor.
The Supreme Court held that the bank was bound to make payment to the Board. It clarified that a discharge of the principal debtor by operation of law (like liquidation proceedings) does not absolve the surety (the bank) from its liability under the bank guarantee, which is an independent contract.

NODIA

May/June 2022

36. In the case of Messrs S.C.I.L. (India) Limited vs Indian Bank, the main contract was suspended by a government notification. How did this affect the bank's liability under its performance guarantee?
(A) The bank's liability was also suspended in line with the main contract.
(B) The bank's liability was not affected as the bank guarantee is an independent contract.
(C) The bank was required to seek a court order to determine its liability.
(D) The bank was absolved of its liability as the main contract became unenforceable.

Ans :

(B) The bank's liability was not affected as the bank guarantee is an independent contract.
The Bombay High Court held that the suspension of the main contract due to a statutory notification did not affect the bank's obligation under the guarantee. The court reiterated the principle that a bank guarantee is a separate and independent contract, and the guarantor's liability is not affected by the suspension of the principal debtor's liability.

Oct/Nov 2023

37. As per the Supreme Court's observations, what kind of fraud must be proven to justify a bank's refusal to honour a guarantee?
(A) A minor suspicion of fraudulent intent by the beneficiary.
(B) Fraud committed by an employee of the principal debtor.

Oct/Nov 2005

21. A creditor obtains a guarantee by keeping silent about a material circumstance, such as previous defaults by the principal debtor. What is the status of such a guarantee?

(A) It is valid, as the surety is responsible for their own due diligence.
(B) It is valid, but the surety's liability is reduced.
(C) It is voidable at the option of the principal debtor.
(D) It is invalid.

Ans :

(D) It is invalid.
A guarantee obtained by the creditor through misrepresentation or by concealing a material fact is invalid. The creditor has a duty to disclose any unusual circumstances within their knowledge that are relevant to the risk the surety is undertaking. Failure to do so, such as not revealing a history of the principal debtor's misconduct, invalidates the guarantee.

May/June 2020

22. Which of the following statements regarding co-sureties for the same debt is INCORRECT?

(A) Co-sureties are liable to pay an equal share of the whole debt, in the absence of a contract to the contrary.
(B) Co-sureties must be aware of each other and agree to act jointly under a single contract.
(C) Co-sureties can be bound under the same or different contracts for the same debt.
(D) If bound in different sums, they are liable to pay equally up to the limits of their respective obligations.

Ans :

(B) Co-sureties must be aware of each other and agree to act jointly under a single contract.
Co-sureties can be bound for the same debt or duty either jointly or severally, and crucially, "with or without the knowledge of each other". They do not need to be parties to the same contract. The core principle is their shared liability for the same obligation, not their mutual awareness or a single contractual document.

Oct/Nov 2015

23. A, B, and C are co-sureties for a debt of ₹30,000 lent by D to E. A is bound in a penalty of ₹10,000, B in ₹20,000, and C in ₹40,000. E defaults to the extent of ₹30,000. How is the liability distributed among A, B, and C?

(A) A pays ₹5,000, B pays ₹10,000, and C pays ₹15,000
(B) A pays ₹10,000, B pays ₹20,000, and C is not liable
(C) The liability is divided in proportion to their penalties.
(D) A pays ₹10,000, B pays ₹10,000, and C pays ₹10,000

Ans :

(D) A pays ₹10,000, B pays ₹10,000, and C pays ₹10,000
According to Section 147, co-sureties bound in different sums are liable to pay equally as far as their respective limits permit. With a total default of ₹30,000, the equal share per surety is ₹10,000. Since this amount is within the individual penalty limits of A (₹10,000), B (₹20,000), and C (₹40,000), each is liable to pay ₹10,000.

May/June 2013

24. If a creditor releases one of the co-sureties from their liability, what is the effect on the other co-sureties?

(A) All other co-sureties are automatically discharged from their obligations.
(B) The remaining co-sureties become liable for the released surety's share.
(C) The released surety is also freed from responsibility towards the other co-sureties.
(D) The release of one co-surety does not discharge the others.

Ans :

(D) The release of one co-surety does not discharge the others.
The release of one co-surety by the creditor does not automatically discharge the other co-sureties from their obligations to the creditor. Furthermore, the surety who has been released by the creditor is not absolved of their responsibility to contribute their share to the other co-sureties if one of them pays more than their portion.

Oct/Nov 2021

25. Which statement best defines a 'bank guarantee' in the context of commercial transactions?

(A) A guarantee given by a bank to a third party to pay a sum on behalf of a customer if the customer defaults.

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Ans :

(A) No, the surety has no right to restrain execution against them.
The surety's liability is co-extensive with the principal debtor's. Therefore, once a creditor has obtained a decree, they can choose to execute it against either the principal debtor or the surety. The surety cannot compel the creditor to first proceed against the principal debtor, as both are equally liable to the creditor under the decree.

Oct/Nov 2022

9. In an illustration, 'A' guarantees to 'B' the payment of a bill of exchange by 'C', the acceptor. The bill is dishonoured by 'C'. What is the extent of 'A's liability?
(A) For the principal amount of the bill plus any legal costs incurred by B.
(B) Only for 50% of the bill amount, as liability is shared with the acceptor.
(C) For the amount of the bill, plus any interest and charges which may have become due on it.
(D) Only for the principal amount of the bill of exchange.

Ans :

(C) For the amount of the bill, plus any interest and charges which may have become due on it.
The liability of the surety is co-extensive with that of the principal debtor. In the event of a dishonoured bill of exchange, the principal debtor (the acceptor 'C') is liable not just for the bill's face value but also for any accrued interest and associated charges. Consequently, the surety ('A') is also liable for the entire amount.

May/June 2018

10. What is a 'continuing guarantee' as defined in Section 129 of the Indian Contract Act, 1872?
(A) A guarantee that extends to a series of transactions over a period of time.
(B) A guarantee that can only be revoked by a joint agreement between the creditor and the surety.
(C) A guarantee that automatically renews upon the completion of each transaction.
(D) A guarantee that is valid for an indefinite period but covers only a single transaction.

Ans :

(A) A guarantee that extends to a series of transactions over a period of time.
A continuing guarantee, as per Section 129, is not confined to a single transaction but extends to a series of transactions. It is designed to cover a fluctuating balance or a number of dealings between the creditor and the principal debtor up to a specified limit, providing ongoing security for the creditor over a period.

Oct/Nov 2016

11. According to Section 130 of the Indian Contract Act, how can a continuing guarantee be revoked by the surety?
(A) It can be revoked at any time for both past and future transactions by notice to the creditor.
(B) It can be revoked only with the consent of the principal debtor.
(C) It cannot be revoked once the first transaction under the guarantee has occurred.
(D) It can be revoked at any time as to future transactions by giving notice to the creditor.

Ans :

(D) It can be revoked at any time as to future transactions by giving notice to the creditor.
Section 130 allows the surety to revoke a continuing guarantee at any time. However, this revocation is effective only for transactions that occur after the notice of revocation is given to the creditor. The surety remains liable for all transactions that have already taken place under the guarantee before the notice was served.

May/June 2014

12. In the context of a continuing guarantee, when does the period of limitation for a bank to enforce a claim against the guarantor typically commence?
(A) From the date the guarantee was first issued.
(B) From the date the account is settled or the guarantor refuses to fulfill the obligation.
(C) From the date of the first default by the principal debtor.
(D) From the date the total debits first exceed the guarantee amount.

Ans :

(B) From the date the account is settled or the guarantor refuses to fulfill the obligation.
For a continuing guarantee covering the general balance of an account, the period of limitation does not commence as long as the account is

NODIA

Ans :

(C) The counterparty's failure to meet a non-financial performance-based condition.

The provided text explicitly states that a performance guarantee is triggered when the counterparty "fails to fulfil or perform a contractual non-financial obligation." This distinguishes it from a financial guarantee, as its purpose is to assure the completion of a specific task or contract as stipulated, rather than guaranteeing a purely financial repayment.

May/June 2008

30. How does the risk of loss in a Performance Guarantee differ from that in a Financial Guarantee?

(A) In a Performance Guarantee, the risk of loss is always higher.

(B) In a Performance Guarantee, the risk of loss may not be directly related to the counterparty's creditworthiness.

(C) In a Financial Guarantee, the risk of loss is unrelated to the counterparty's creditworthiness.

(D) There is no difference in the nature of risk between the two types of guarantees.

Ans :

(B) In a Performance Guarantee, the risk of loss may not be directly related to the counterparty's creditworthiness.

A financial guarantee's risk is directly linked to the counterparty's financial stability (creditworthiness). In contrast, a performance guarantee's risk depends on an event—the failure to perform a non-financial obligation. This failure could be due to various reasons, not necessarily just the financial inability of the counterparty, making the risk assessment more complex.

Oct/Nov 2013

31. Why are bank guarantees often referred to as 'the life blood of national and international commerce'?

(A) Because they are insured by the central bank, eliminating all risk for the parties.

(B) Because they replace the need for any underlying commercial contract.

(C) Because they are the primary source of funding for most commercial projects.

(D) Because they function as independent commitments that build trust and facilitate transactions.

Ans :

(D) Because they function as independent commitments that build trust and facilitate transactions.

This phrase highlights the crucial role of bank guarantees in commerce. They are independent undertakings by banks that provide assurance of payment, thereby fostering trust between transacting parties who may not know each other. This security allows commerce to proceed smoothly, reducing the risk of non-performance or non-payment and thus lubricating the wheels of trade.

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May/June 2015

32. What was the central principle established in the English case of R.D. Harbottle Ltd. vs National Westminster Bank Ltd. regarding a bank's duty to honour a performance guarantee?

(A) A bank must verify the supplier's performance before honouring the guarantee.

(B) A bank must honour the guarantee according to its terms and is not concerned with disputes in the underlying contract.

(C) A bank can refuse payment if the supplier and customer are in disagreement.

(D) A bank should seek court intervention before making any payment under a guarantee.

Ans :

(B) A bank must honour the guarantee according to its terms and is not concerned with disputes in the underlying contract.

Justice Kerr's judgment in this case established that bank guarantees are autonomous contracts. The bank's obligation is to honour the guarantee as per its terms, irrespective of the relationship or disputes between the supplier (applicant) and the customer (beneficiary). The only exception noted was in the case of clear fraud known to the bank.

Oct/Nov 2012

33. Indian courts have generally refused to grant injunctions against banks making payments under guarantees, except in which two specific circumstances?

(A) Breach of contract and minor documentation errors.

(B) Disputes under arbitration and delayed performance.

(C) Cases of fraud and special equities or irretrievable injustice.

primary debt also extinguishes the secondary obligation.

Oct/Nov 2011

17. A debt guaranteed by surety 'A' becomes payable by debtor 'B' to creditor 'C'. 'C' does not sue 'B' for a year after the debt becomes due. Is surety 'A' discharged from the suretyship?

(A) Yes, because the creditor's delay has prejudiced the surety's rights.
(B) No, because mere forbearance on the part of the creditor to sue does not discharge the surety.
(C) Yes, because the limitation period to sue the principal debtor has expired.
(D) No, but A's liability is reduced by the amount of interest accrued during the year of forbearance.

Ans :

(B) No, because mere forbearance on the part of the creditor to sue does not discharge the surety.
Mere forbearance by the creditor to sue the principal debtor or to enforce any other remedy against them does not, in the absence of any contrary provision in the guarantee, discharge the surety. The creditor is not obligated to take immediate action against the debtor upon default, and such a delay does not absolve the surety.

May/June 2010

18. Once a surety has paid the debt owed by the principal debtor, what right does the surety acquire?

(A) The right to claim their dues from the principal debtor, effectively stepping into the creditor's shoes.
(B) The right to take possession of the creditor's assets.
(C) The right to cancel all contracts between the creditor and the principal debtor.
(D) The right to demand a new guarantee from the principal debtor for future transactions.

Ans :

(A) The right to claim their dues from the principal debtor, effectively stepping into the creditor's shoes.
Upon payment of the guaranteed debt, the surety is entitled to all the rights that the creditor had against the principal debtor. This principle, known as subrogation, allows the surety to "step into the shoes of the creditor" and recover the entire sum they have rightfully paid from the principal debtor, including principal and any costs.

Oct/Nov 2024

19. A surety is entitled to the benefit of every security that the creditor has against the principal debtor. If the creditor loses or parts with such security, what is the impact on the surety?

(A) The surety's liability remains unaffected as the guarantee is a separate contract.
(B) The surety must provide a replacement security of equivalent value.
(C) The surety is discharged to the extent of the value of the security lost.
(D) The surety is fully discharged from the entire guarantee.

Ans :

(C) The surety is discharged to the extent of the value of the security lost.
The surety has a right to the benefit of any security held by the creditor against the principal debtor at the time the suretyship is created. If the creditor, through their actions, loses or gives up this security without the surety's consent, the surety's liability is reduced by the value of that lost security.

May/June 2017

20. According to Section 145 of the Indian Contract Act, what promise is implied in every contract of guarantee?

(A) An implied promise by the principal debtor to indemnify the surety.
(B) An implied promise by the surety to provide additional security if requested.
(C) An implied promise by the principal debtor to pay the surety a commission.
(D) An implied promise by the creditor to inform the surety of any default.

Ans :

(A) An implied promise by the principal debtor to indemnify the surety.
Section 145 establishes that in every contract of guarantee, there is an inherent or implied promise from the principal debtor to indemnify the surety. This means the principal debtor is legally bound to reimburse the surety for any amount that the surety has rightfully paid to the creditor under the terms of the guarantee.

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(C) Fraud of an "egregious nature as to vitiate the entire underlying transaction".
(D) Any allegation of fraud made by the applicant in a court of law.

Ans :

(C) Fraud of an "egregious nature as to vitiate the entire underlying transaction".
The courts have specified that the fraud required to serve as an exception must be severe and fundamental. It must be a "fraud of an egregious nature" that contaminates the whole transaction. The fraud must be that of the beneficiary, not someone else, and must be clearly established, not merely alleged, to justify non-payment.

May/June 2016

38. In a situation where a bank suspects fraud but lacks conclusive proof, what is the most advisable course of action for the bank?
(A) Inform the customer of the invocation and advise them to seek an injunction from a court.
(B) Pay the amount under protest to the beneficiary.
(C) Make the payment and then file a fraud case against the beneficiary.
(D) Refuse the payment immediately and inform the beneficiary.

Ans :

(A) Inform the customer of the invocation and advise them to seek an injunction from a court.
Judging whether fraud has occurred can be very difficult for a bank. The text advises that in such cases, it is proper for the bank to inform its customer (the applicant) about the invocation and its intention to pay, giving the customer time to approach a court and obtain an injunction if they have grounds.

Oct/Nov 2009

39. The exception of 'special equity' or 'irretrievable harm' was illustrated by the US Court decision in Itek Corp. vs First National Bank of Boston. What was the key factor leading to the court's decision?
(A) The goods supplied by the exporter were found to be defective.
(B) The Iranian bank was financially unstable and likely to default.
(C) The contract was cancelled due to a political revolution and US government sanctions.
(D) The American exporter had filed for bankruptcy.

Ans :

(C) The contract was cancelled due to a political revolution and US government sanctions.
The court upheld the exporter's contention because the Iranian revolution and subsequent actions by both the US and Iranian governments (cancelled export licenses, hostage crisis, blocked assets) created a situation of irretrievable harm. Any claim for damages would be non-executable in Iran, making the payment under the letter of credit a permanent, unjust loss.

May/June 2023

40. When issuing a bank guarantee, what are the two most fundamental criteria that must be specifically stated to avoid unlimited liability for the bank?
(A) The amount guaranteed and the period of the guarantee.
(B) The governing law and the jurisdiction for disputes.
(C) The commission rate and the security obtained from the customer.
(D) The customer's credit rating and the purpose of the guarantee.

Ans :

(A) The amount guaranteed and the period of the guarantee.
To define the scope of its commitment, a bank must clearly and specifically state two key elements in the guarantee document. These are the maximum amount it is liable for and the validity period during which a default must occur for the guarantee to be applicable. Without these, the bank's liability could be unlimited.

Oct/Nov 2018

41. In a bank guarantee document, what is the distinction between the 'validity period' and the 'claim period'?
(A) They are synonymous terms referring to the same duration.
(B) The validity period is for making a claim, and the claim period is for the default to occur.
(C) The validity period is set by the bank, while the claim period is set by the beneficiary.
(D) The validity period is when the default must occur, and the claim period is an additional time to lodge the claim.

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(B) A loan given by a bank to a customer, guaranteed by a third party.
(C) An assurance from a bank that a customer's cheque will be honoured.
(D) A deposit made by a customer with a bank as security for a loan.

Ans :

(A) A guarantee given by a bank to a third party to pay a sum on behalf of a customer if the customer defaults.
A bank guarantee is an undertaking by a bank (the guarantor) to a third party (the beneficiary). The bank promises to pay a specified amount on behalf of its customer (the applicant) if the customer fails to fulfill their contractual or legal obligations towards the beneficiary. It is a trilateral contract involving the bank, its customer, and the beneficiary.

May/June 2024

26. In a contract of bank guarantee, who is the 'beneficiary'?
(A) The person at whose request the guarantee is executed.
(B) The person to whom the guarantee is given and who can enforce it in case of default.
(C) The agent who facilitates the issuance of the guarantee.
(D) The bank that undertakes to discharge the obligations.

Ans :

(B) The person to whom the guarantee is given and who can enforce it in case of default.
In a bank guarantee arrangement, the 'beneficiary' is the party in whose favor the guarantee is issued. This is the entity (often the creditor in the main contract) who is entitled to receive payment from the guarantor bank if the applicant/principal debtor fails to meet their commitments. The beneficiary is the one who can invoke the guarantee.

Oct/Nov 2008

27. Which of the following is NOT a primary type of bank guarantee discussed in the chapter?
(A) Financial Guarantee
(B) Performance Guarantee
(C) Sovereign Guarantee
(D) Deferred Payment Guarantee

Ans :

(C) Sovereign Guarantee
The chapter classifies and discusses three important types of bank guarantees that a banker would regularly issue: Financial Guarantees, Performance Guarantees, and Deferred Payment Guarantees. While sovereign guarantees exist in international finance, they are not listed as one of the primary types of bank guarantees covered in this specific chapter's classification.

May/June 2006

28. What is the primary purpose of a Financial Guarantee issued by a bank?
(A) To guarantee the quality and timely completion of a construction project.
(B) To serve as a substitute for a cash security deposit or earnest money.
(C) To ensure a customer will fulfill a non-financial contractual obligation.
(D) To guarantee repayment of a loan taken from another financial institution.

Ans :

(B) To serve as a substitute for a cash security deposit or earnest money.
Financial Guarantees are typically issued on behalf of customers, such as contractors dealing with government departments, in lieu of depositing cash for earnest money or security. This allows the customer to utilize their funds for operational needs while the bank provides an irrevocable undertaking to pay in case of default, carrying a similar credit risk as a direct loan.

Oct/Nov 2017

29. Read the following excerpt: "Performance guarantees are essentially transaction related contingencies that involve an irrevocable undertaking to pay a third party in the event the counterparty fails to fulfil or perform a contractual non-financial obligation."
Based on this, what is the key trigger for invoking a Performance Guarantee?
(A) The counterparty's failure to successfully repay a monetary loan or credit facility.
(B) The counterparty's official credit rating falling below a pre-agreed upon level.
(C) The counterparty's failure to meet a non-financial performance-based condition.
(D) The beneficiary's sudden and documented need for immediate working capital.

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(A) The invocation's substance and intent are more important than its exact phrasing.
This ruling suggests that the invocation of a commercial document like a bank guarantee does not require the punctilious precision of a legal pleading. As long as the communication makes it clear to the bank that the beneficiary is invoking the guarantee according to its terms, it is considered sufficient and proper.

May/June 2019

46. Which of the following is a key precaution a banker must take before making a payment under an invoked guarantee?
(A) Obtain a written consent from the principal debtor to release the funds.
(B) Verify that the invocation is within the specified validity and claim periods.
(C) Confirm that the beneficiary has suffered a quantifiable financial loss.
(D) Ensure that the underlying contract has been officially terminated.

Ans :

(B) Verify that the invocation is within the specified validity and claim periods.
Before making payment, the bank must ensure all conditions of the guarantee are met by the beneficiary. A fundamental check is to confirm that the invocation has been received within the validity period (or the subsequent claim period, as applicable). An invocation made after the expiry of these periods is invalid, and the bank is not obligated to pay.

Oct/Nov 2006

47. In guarantees issued to Government departments, why is the invoking authority often designated by post rather than by name?
(A) To maintain the confidentiality of the invoking officer.
(B) To avoid problems arising from changes in the incumbent officer.
(C) Because government designations carry more legal weight than personal names.
(D) To comply with the official secrets act.

Ans :

(B) To avoid problems arising from changes in the incumbent officer.
Government officials are frequently transferred or may retire. Designating the invoking authority by their official post (e.g., "The Chief Engineer") rather than by their personal name (e.g., "Mr. John Doe") ensures that whoever holds that position at the time of invocation is empowered to act, preventing validity issues due to personnel changes.

May/June 2021

48. What was the Supreme Court's ruling in Hindustan Construction Co. Ltd. vs State of Bihar regarding the authority to invoke a guarantee?
(A) If the guarantee specifies invocation by the Chief Engineer, an invocation by the Executive Engineer is invalid.
(B) Any senior officer of the beneficiary organization can invoke the guarantee.
(C) The authority to invoke can be delegated verbally without written record.
(D) The bank must accept invocation from any authority if the beneficiary is a government entity.

Ans :

(A) If the guarantee specifies invocation by the Chief Engineer, an invocation by the Executive Engineer is invalid.
This case underscored the importance of adhering strictly to the terms of the guarantee. The Supreme Court held that if the contract specifies a particular designated official (the Chief Engineer) must invoke the guarantee, an invocation by a different official (the Executive Engineer) is improper and invalid. The bank's refusal to pay was upheld.

Oct/Nov 2010

49. If a court of law passes an injunction order prohibiting a bank from making payment under a guarantee, and the bank is a party to the case, what is the consequence if the bank pays despite the order?
(A) The bank can recover the amount from the principal debtor.
(B) The payment is considered valid, but the bank may face a penalty.
(C) The bank will be liable for contempt of Court.
(D) The court order is nullified by the act of payment.

Ans :

(C) The bank will be liable for contempt of Court.
A banker must meticulously check for any court-issued injunction that restrains it from making payment. If a competent court has passed such an

order and the bank is a party to the proceedings, ignoring it and making the payment would constitute contempt of court, a serious offense with legal repercussions for the bank.

May/June 2005

50. In Messrs G.S. Atwal Co. Engineers Pvt. Ltd. vs HWC Ltd., a bank mistakenly issued a mobilisation advance-cum-performance guarantee instead of just a mobilisation advance guarantee. The beneficiary invoked it for non-performance after the advance was fully recovered. What did the High Court decide?

(A) An injunction was granted as there was special equity in favour of the petitioner due to the bank's mistake.

(B) The beneficiary was fully entitled to claim damages for non-performance since the contract was invoked as written.

(C) The case was dismissed because the petitioner's proper legal remedy was to sue the bank directly for negligence.

(D) The bank must pay, as the guarantee document's literal text included performance clauses, regardless of original intent.

Ans :

(A) An injunction was granted as there was special equity in favour of the petitioner due to the bank's mistake.

The High Court found that the beneficiary was aware of the bank's mistake and was trying to take advantage of it. Since the guarantee was intended only for the mobilisation advance (which was recovered), invoking it for performance was unjust. This created a "special equity" in favor of the petitioner, justifying an injunction to prevent enforcement.

Oct/Nov 2022

51. Match the parties in a Contract of Guarantee (List-I) with their correct descriptions (List-II).

List-I

P. Surety

Q. Principal Debtor

R. Creditor

List-II

1. The person to whom the guarantee is given.
2. The person who gives the guarantee.
3. The person in respect of whose default the guarantee is given.

(A) P-2, Q-3, R-1

(B) P-1, Q-2, R-3

(C) P-3, Q-1, R-2

(D) P-2, Q-1, R-3

Ans :

(A) P-2, Q-3, R-1

In a contract of guarantee, the 'Surety' is the individual or entity that provides the guarantee (2). The 'Principal Debtor' is the person whose debt or obligation is being guaranteed (3). The 'Creditor' (or beneficiary) is the person who receives the benefit of the guarantee and to whom the obligation is owed (1).

May/June 2018

52. Which of the following statements is INCORRECT regarding a contract of guarantee?

(A) The liability of the surety is co-extensive with that of the principal debtor.

(B) A contract of guarantee must always be in writing.

(C) A guarantee obtained by misrepresentation made by the creditor is invalid.

(D) A continuing guarantee may be revoked by the surety as to future transactions.

Ans :

(B) A contract of guarantee must always be in writing.

According to Section 126 of the Indian Contract Act, 1872, a contract of guarantee may be either oral or written. While it is always prudent for banks and creditors to have guarantees in writing for evidentiary purposes, an oral guarantee is legally valid and enforceable, unlike certain other types of contracts that require writing.

Oct/Nov 2016

53. Assertion (A): The death of a surety operates as a revocation of a continuing guarantee for future transactions.

Reason (R): The contract of guarantee is a personal contract, and the surety's consent cannot be assumed for transactions occurring after their death.

(A) Both A and R are true and R is the correct explanation of A.

(B) Both A and R are true but R is not the correct explanation of A.

(C) A is true but R is false.

(D) A is false but R is true.

Ans :

(A) Both A and R are true and R is the correct explanation of A.

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The assertion is a correct legal principle. The reason provides the underlying logic; a guarantee relies on the surety's personal undertaking and confidence. This personal element ceases upon death, so their estate cannot be bound for new liabilities incurred thereafter, unless the contract explicitly provides for it. Thus, the reason correctly explains the assertion.

May/June 2014

54. Consider the following events in a guarantee arrangement:

1. Variance in contract terms without surety's consent.
2. Creditor releases the principal debtor.
3. Creditor merely forbears to sue the principal debtor.
4. Creditor loses security held against the principal debtor.

In which of these events is the surety NOT discharged from liability?

(A) 1 only
(B) 3 only
(C) 2 and 4 only
(D) 1, 2 and 4

Ans :

(B) 3 only

Variance in terms (1), release of the principal debtor (2), and loss of security by the creditor (4) are all specific grounds that lead to the discharge of the surety's liability (fully or partially). However, mere forbearance or delay in suing the principal debtor does not, by itself, discharge the surety from their obligation.

Oct/Nov 2007

55. A bank issues a Financial Guarantee on behalf of a contractor in lieu of an Earnest Money Deposit for a government tender. The contractor is awarded the contract but fails to proceed with the work. What is the most likely consequence?

(A) The bank will negotiate a new contractor for the government department.
(B) The government department will invoke the bank guarantee and collect the money from the bank.
(C) The guarantee automatically lapses as the tender process is complete.
(D) The bank will sue the contractor for breach of contract on behalf of the government.

Ans :

(B) The government department will invoke the bank guarantee and collect the money from the bank.

The purpose of an Earnest Money Deposit, and by extension a financial guarantee given in its place, is to ensure that the winning bidder accepts and proceeds with the contract. If the contractor defaults by not taking up the awarded contract, the government department is entitled to invoke the guarantee to compensate for the failed tender.

May/June 2025

56. Read the following: "In every Contract of Guarantee there is an implied promise by the principal debtor to indemnify the surety. The surety is entitled to recover from the principal debtor whatever sum he has rightfully paid under the guarantee (but no sums which he has paid wrongfully)."

A surety pays a debt that was legally barred by the statute of limitation. Can the surety recover this amount from the principal debtor?

(A) Yes, because the surety fulfilled the underlying obligation on behalf of the principal debtor.
(B) Yes, but the recoverable amount is limited to 50% of the sum that was originally paid.
(C) No, because the primary fault lies with the creditor who should have informed the surety about the limitation.
(D) No, because the payment was not 'rightfully paid' as the original debt was legally unenforceable.

Ans :

(D) No, because the payment was not 'rightfully paid' as the original debt was legally unenforceable.

The excerpt specifies that a surety can only recover sums that have been 'rightfully paid'. A time-barred debt is not legally enforceable. Therefore, if a surety pays such a debt, the payment is considered wrongful or officious. The implied promise to indemnify does not extend to payments that the surety was not legally compelled to make.

Oct/Nov 2019

57. As per the RBI circular dated September 9, 2014, on wilful defaulters, what action is a bank

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country. Its main duty is to authenticate the LC received from the issuing bank to ensure it is genuine and then advise or forward it to the beneficiary. This role does not typically include an undertaking to pay.

May/June 2016

14. If a Letter of Credit does not specify a particular bank for negotiation, what is the implication?
(A) The LC becomes invalid and must be re-issued.
(B) Only the issuing bank can negotiate the documents.
(C) The advising bank automatically becomes the negotiating bank.
(D) Any bank can act as the negotiating bank.

Ans :

(D) Any bank can act as the negotiating bank.
An LC that is freely negotiable and does not specify a 'nominated bank' for negotiation contains an open invitation from the issuing bank. Any bank that negotiates the bill and accepts the documents in compliance with the credit's terms effectively accepts this offer and can claim reimbursement from the issuing bank, becoming the negotiating bank for that transaction.

Oct/Nov 2025

15. A seller is not satisfied with the financial standing of the issuing bank. What can the seller request to get an additional guarantee of payment from a bank in their own country?
(A) Ask for the LC to be confirmed by another bank.
(B) Ask for a Back-to-Back Credit.
(C) Request the LC to be made Transferable.
(D) Insist on a Red Clause Letter of Credit.

Ans :

(A) Ask for the LC to be confirmed by another bank.
If the seller (beneficiary) has doubts about the issuing bank or the economic/political stability of the issuing bank's country, they can request that the LC be confirmed. A Confirming Bank, usually the advising bank, adds its own separate undertaking to pay, providing an additional layer of security for the seller in their own country.

May/June 2011

16. Match List-I (Party in LC) with List-II (Primary Role) and select the correct code. List-I: P. Applicant, Q. Issuing Bank, R. Beneficiary, S. Advising Bank. List-II: 1. Receives payment upon presenting documents, 2. Authenticates and forwards the LC to the seller, 3. Requests the bank to open the LC, 4. Undertakes to pay against compliant documents.
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-3, Q-4, R-1, S-2
The Applicant (P) is the buyer who requests the LC (3). The Issuing Bank (Q) is the bank that opens the LC and undertakes the payment obligation (4). The Beneficiary (R) is the seller who receives payment (1). The Advising Bank (S) is the correspondent bank that authenticates and forwards the LC to the beneficiary (2).

Oct/Nov 2014

17. What is the role of a Reimbursing Bank in a Letter of Credit transaction?
(A) It is the bank that opens the Letter of Credit.
(B) It is appointed by the issuing bank to make reimbursement to the negotiating or paying bank.
(C) It is the bank that directly pays the beneficiary for the goods.
(D) It is the bank that advises the credit to the exporter.

Ans :

(B) It is appointed by the issuing bank to make reimbursement to the negotiating or paying bank.
A Reimbursing Bank is a third bank, separate from the issuing and negotiating banks, appointed by the issuing bank. Its specific function is to honor the reimbursement claim from the negotiating, paying, or confirming bank. This simplifies and expedites the settlement process, especially when the issuing and negotiating banks do not have a direct account relationship.

May/June 2005

18. An LC that allows for payment to be made at a future date based on usance bills drawn under it is known as:
(A) Acceptance Credit or Time Credit
(B) Sight Credit
(C) Revolving Credit
(D) Red Clause Credit

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CHAPTER 32
Letters of Credit

Oct/Nov 2022

1. In the context of international trade, what is the primary purpose of a Letter of Credit (LC)?
(A) To provide a long-term loan to the importer for purchasing goods.
(B) To offer an assurance from a banker that the seller's interest will be protected and payment will be made upon compliance with terms.
(C) To act as a negotiable instrument that can be freely traded in the market.
(D) To serve as a direct contract between the buyer and seller, bypassing the need for banks.

Ans :

(B) To offer an assurance from a banker that the seller's interest will be protected and payment will be made upon compliance with terms.
A Letter of Credit is used in trade to mitigate risk, especially when the buyer and seller are unknown to each other. It serves as a guarantee from a bank that the seller will be paid, provided they present documents that conform to the LC's terms, thus providing confidence and protecting the seller's interest.

May/June 2010

2. According to the definition provided, a Letter of Credit is a written instrument issued by a banker at the request of whom?
(A) The buyer (applicant)
(B) The seller (beneficiary)
(C) The shipping company
(D) The customs authority

Ans :

(A) The buyer (applicant)
A Letter of Credit transaction is initiated by the buyer, also known as the applicant. The buyer requests their bank to issue the LC in favor of the seller (beneficiary). This undertaking by the bank to pay the seller forms the core of the LC mechanism, securing the transaction for both parties involved in the trade deal.

Oct/Nov 2018

3. Which of the following statements accurately describes the nature of a Letter of Credit?
(A) It is a type of negotiable instrument, similar to a bill of exchange.
(B) It is a direct payment from the buyer's account to the seller's account.
(C) It is a form of guarantee from a bank and is not a negotiable instrument.
(D) It is an optional document in international trade, used only for low-value goods.

Ans :

(C) It is a form of guarantee from a bank and is not a negotiable instrument.
An LC is fundamentally a conditional undertaking by a bank to make a payment. It functions like a guarantee. Unlike instruments such as cheques or bills of exchange, an LC itself is not a negotiable instrument, meaning the rights under it cannot be freely transferred by simple endorsement and delivery, although bills drawn under it are negotiable.

May/June 2024

4. M/s Bharath & Co. in India contracts to import machinery from M/s Edward & Co. in England, with payment under a Letter of Credit. What is the first operational step in the LC transaction after the contract is established?
(A) M/s Edward & Co. ships the machinery to M/s Bharath & Co.
(B) Bank of India makes payment to M/s Edward & Co.
(C) Barclays Bank verifies the authenticity of the LC.
(D) M/s Bharath & Co. applies to its bank, Bank of India, to open an LC.

Ans :

(D) M/s Bharath & Co. applies to its bank, Bank of India, to open an LC.
The process begins after the buyer and seller agree on the trade terms. The buyer (importer), M/s Bharath & Co., must then approach their bank,

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(C) It allows the original applicant to transfer their obligation to pay to another party.
(D) It allows the beneficiary to transfer their rights under the LC to one or more second beneficiaries.

Ans :

(D) It allows the beneficiary to transfer their rights under the LC to one or more second beneficiaries.
A Letter of Credit must be specifically designated as 'transferable' to grant this right. It allows the first beneficiary (often a middleman) to request the transferring bank to make the credit available in whole or in part to one or more second beneficiaries (the ultimate suppliers). This is distinct from the negotiation of bills drawn under the LC.

May/June 2012

24. A trader receives an LC in their favor and uses it as collateral to have their bank open another, separate LC in favor of their own supplier. This arrangement is known as a:
(A) Back-to-Back Credit
(B) Revolving Credit
(C) Red Clause Credit
(D) Transferable Credit

Ans :

(A) Back-to-Back Credit
In a Back-to-Back Credit, a beneficiary of one LC (the master LC) uses it as a basis for their bank to issue a second LC (the back-to-back LC) to their supplier. The master LC serves as the security for the issuance of the second LC. This arrangement involves two separate LCs, unlike a transferable credit which is a single instrument.

Oct/Nov 2015

25. What is the defining feature of a 'Red Clause' Letter of Credit?
(A) It is printed entirely in red ink for easy identification.
(B) It can only be used for trade in agricultural products.
(C) It authorizes an intermediary bank to make an advance payment to the beneficiary before shipment.
(D) It requires confirmation from at least two different banks.

Ans :

(C) It authorizes an intermediary bank to make an advance payment to the beneficiary before shipment.
A Red Clause LC contains a special clause, historically written in red ink, that authorizes the advising or nominated bank to grant a pre-shipment advance to the beneficiary. This advance helps the beneficiary finance the purchase or production of the goods to be exported. The advance is then deducted from the final payment after shipment.

May/June 2008

26. Which type of credit is a refinement of the 'Red Clause' LC and permits advances to cover storage costs at the port of shipment in addition to pre-shipment finance?
(A) Green Clause Letter of Credit
(B) Revolving Letter of Credit
(C) Acceptance Credit
(D) Standby Letter of Credit

Ans :

(A) Green Clause Letter of Credit
A Green Clause Letter of Credit expands upon the pre-shipment financing offered by a Red Clause LC. In addition to providing an advance for purchasing or manufacturing goods, it also allows for advances to cover the costs of storage at the port of shipment, with the goods typically being warehoused in the name of the bank.

Oct/Nov 2019

27. For parties engaged in regular, ongoing trade, which type of LC is most efficient to avoid the need for a new LC for every shipment?
(A) Transferable LC
(B) Back-to-Back LC
(C) Confirmed LC
(D) Revolving LC

Ans :

(D) Revolving LC
A Revolving Letter of Credit is designed for regular shipments between the same buyer and seller. It allows the credit amount to be automatically reinstated or renewed after a drawing is made and paid. This avoids the time-consuming and costly process of opening a separate LC for each individual transaction in a series of shipments.

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after shipment by negotiating documents with a bank. The buyer's advantages include avoiding advance payments, obtaining credit, and ensuring the seller meets specific conditions before payment is released by the bank.

Oct/Nov 2013

9. For a seller in an international trade transaction, what is a key benefit of having an LC?
(A) The seller can delay the shipment of goods indefinitely.
(B) The seller does not need to prepare any shipping documents.
(C) The seller is assured of receiving payment upon complying with the LC terms.
(D) The seller can directly collect payment from the buyer's overseas account.

Ans :

(C) The seller is assured of receiving payment upon complying with the LC terms.
The primary advantage for the seller (beneficiary) is the mitigation of payment risk. The LC substitutes the creditworthiness of the buyer with that of a bank. As long as the seller presents the stipulated documents in strict compliance with the LC's terms and conditions, the bank is obligated to pay, regardless of the buyer's willingness or ability to pay.

May/June 2019

10. Identify the party in a Letter of Credit transaction who is also referred to as the opener.
(A) Applicant
(B) Beneficiary
(C) Advising Bank
(D) Negotiating Bank

Ans :

(A) Applicant
The applicant is the party who initiates the Letter of Credit process by applying to a bank to issue it. This party is typically the buyer or importer of goods or services. Therefore, the terms 'applicant', 'buyer', 'importer', and 'opener' all refer to the same entity in an LC transaction, which in the given illustration is M/s Bharath & Co.

Oct/Nov 2011

11. In a Letter of Credit transaction, which entity is known as the Issuing Bank?
(A) The bank that advises the credit to the beneficiary.
(B) The bank that negotiates the documents presented by the seller.
(C) The bank that confirms the credit and adds its own undertaking.
(D) The bank that opens the LC at the request of the applicant.

Ans :

(D) The bank that opens the LC at the request of the applicant.
The Issuing Bank, also known as the Opening Bank or Importer's Bank, is the cornerstone of the LC. It is the bank that issues or "opens" the credit on behalf of its customer, the applicant (buyer). This bank undertakes the primary obligation to make payment to the beneficiary, provided the terms of the credit are met.

May/June 2022

12. The person who is entitled to receive the benefit under a Letter of Credit, including the right to receive payment, is known as the:
(A) Applicant-Buyer
(B) Beneficiary-Exporter-Seller
(C) Issuing Bank
(D) Advising Bank

Ans :

(B) Beneficiary-Exporter-Seller
The beneficiary is the party in whose favor the Letter of Credit is issued. This is typically the seller or exporter of the goods. The beneficiary is entitled to receive payment from the bank upon successful presentation of the documents required by the LC, thus "benefiting" from the bank's undertaking to pay on behalf of the buyer.

Oct/Nov 2009

13. What is the primary function of an Advising Bank in an LC transaction?
(A) To add its own guarantee of payment to the LC.
(B) To negotiate the documents and make payment to the seller.
(C) To forward the LC to the beneficiary, enabling them to rely on its authenticity.
(D) To open the LC on behalf of the importer.

Ans :

(C) To forward the LC to the beneficiary, enabling them to rely on its authenticity.
The Advising Bank, or Notifying Bank, acts as an agent for the Issuing Bank in the beneficiary's

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Bank of India, and submit an application to open a Letter of Credit in favor of the seller (exporter), M/s Edward & Co. This step formally initiates the banking component of the transaction.

Oct/Nov 2005

5. In an LC transaction, Bank of India (issuing bank for importer M/s Bharath & Co.) sends the LC to Barclays Bank in England to forward to the exporter, M/s Edward & Co. What is the role of Barclays Bank?

(A) It is the bank that opens the Letter of Credit.
(B) It is the bank of the importer, M/s Bharath & Co.
(C) It is the bank that advises the LC to the exporter after verifying its authenticity.
(D) It is the bank that releases the shipping documents directly to the importer.

Ans :

(C) It is the bank that advises the LC to the exporter after verifying its authenticity.
In the described transaction, Bank of India is the issuing bank. It uses Barclays Bank in England as a correspondent bank. Barclays Bank's role is to receive the LC from Bank of India, verify its genuineness, and then forward, or 'advise', it to the beneficiary, M/s Edward & Co., making it the advising bank in this context.

May/June 2015

6. M/s Edward & Co. has shipped machinery to M/s Bharath & Co. and presented the bill of lading and a bill of exchange to Barclays Bank under an LC. Barclays Bank finds the documents to be in order. What is the immediate subsequent action taken by Barclays Bank?

(A) It sends the documents to M/s Bharath & Co. for their approval.
(B) It negotiates the bill, makes payment to M/s Edward & Co., and sends the documents to Bank of India.
(C) It waits for Bank of India to release payment before acting.
(D) It releases the goods from the shipping company on behalf of M/s Bharath & Co.

Ans :

(B) It negotiates the bill, makes payment to M/s Edward & Co., and sends the documents to Bank of India.
As the negotiating bank, Barclays Bank's role is to check the documents for compliance with the LC terms. Upon finding them in order, it negotiates the bill of exchange, meaning it purchases the documents and makes immediate payment to the beneficiary, M/s Edward & Co. It then forwards these documents to the issuing bank, Bank of India, for reimbursement.

Oct/Nov 2020

7. What is the final step in the LC transaction involving M/s Bharath & Co. that allows them to take possession of the imported machinery?

(A) M/s Edward & Co. directly sends the shipping documents to M/s Bharath & Co.
(B) Barclays Bank releases the shipping documents to M/s Bharath & Co. after payment.
(C) The shipping company releases the goods upon arrival at the port without any documentation.
(D) Bank of India releases the shipping documents to M/s Bharath & Co. upon receiving payment from them.

Ans :

(D) Bank of India releases the shipping documents to M/s Bharath & Co. upon receiving payment from them.
The issuing bank, Bank of India, holds the title documents (like the bill of lading) received from the negotiating bank. It will only release these crucial shipping documents to the importer, M/s Bharath & Co., after M/s Bharath & Co. has made the required payment to the bank. Possession of these documents allows the importer to claim the goods.

May/June 2007

8. Which of the following is NOT an advantage of using a Letter of Credit for the buyer?

(A) The buyer receives immediate payment upon shipment of goods.
(B) The buyer can induce the seller to give credit.
(C) No advance payment needs to be made to the seller.
(D) The buyer can stipulate conditions like a quality certificate from an independent body.

Ans :

(A) The buyer receives immediate payment upon shipment of goods.
The buyer is the party making the payment, not receiving it. An advantage for the seller, not the buyer, is the ability to receive prompt payment

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Ans :

(A) Acceptance Credit or Time Credit
While ordinary LCs are sight credits requiring immediate payment, an Acceptance Credit (or Time/Usance Credit) involves bills of exchange that are payable at a future date. The bank 'accepts' the draft, promising to pay it on its maturity date. This provides a credit period to the buyer while allowing the seller to discount the accepted bill for early funds.

Oct/Nov 2023

19. According to the latest Uniform Customs and Practices for Documentary Credits (UCP 600), what is the default status of all Letters of Credit?
(A) Revocable
(B) Transferable
(C) Irrevocable
(D) Confirmed

Ans :

(C) Irrevocable
Under the rules of UCP 600, all Letters of Credit are considered irrevocable by default. This means that once an LC is issued, it cannot be amended or cancelled without the consent of the beneficiary, the issuing bank, and the confirming bank (if any). This provides significant security to the seller, as the credit commitment is firm.

May/June 2021

20. When an advising bank adds its own separate undertaking to pay the beneficiary, in addition to that of the issuing bank, the Letter of Credit becomes a:
(A) Transferable Credit
(B) Back-to-Back Credit
(C) Revolving Credit
(D) Confirmed Credit

Ans :

(D) Confirmed Credit
A Confirmed Credit is created when a second bank, typically the advising bank, adds its confirmation upon the instruction of the issuing bank. This confirmation constitutes a definite undertaking of the confirming bank, in addition to that of the issuing bank, to honor or negotiate a complying presentation, thereby providing enhanced security to the beneficiary.

Oct/Nov 2006

21. What does the term 'with recourse' in a Letter of Credit context imply for the beneficiary?
(A) The beneficiary has no liability once the documents are negotiated.
(B) The beneficiary can transfer their rights to a third party.
(C) The beneficiary is liable to the negotiating bank if the drawee (issuing bank) fails to make payment.
(D) The beneficiary can receive an advance payment before shipment.

Ans :

(C) The beneficiary is liable to the negotiating bank if the drawee (issuing bank) fails to make payment.
Under the Negotiable Instruments Act, the drawer of a bill (the beneficiary) is generally liable to subsequent holders if the bill is dishonored. A 'with recourse' LC means this liability remains. If the negotiating bank pays the beneficiary but the issuing bank later refuses to reimburse, the negotiating bank has 'recourse' to claim the money back from the beneficiary.

May/June 2025

22. A beneficiary can negate their liability on a bill of exchange drawn under an LC by adding which specific endorsement?
(A) 'Pay to the order of'
(B) 'Without recourse'
(C) 'For collection only'
(D) 'Value received'

Ans :

(B) 'Without recourse'
To exclude the liability that normally falls upon the drawer of a bill if it is dishonored, the beneficiary can add the words 'without recourse' to the bill. This endorsement signifies that subsequent holders of the bill cannot claim payment from the beneficiary (drawer) in the event of non-payment by the drawee, shifting the risk.

Oct/Nov 2017

23. Which of the following statements about a Transferable Credit is correct?
(A) All Letters of Credit are transferable by default.
(B) It is a type of credit that is automatically renewed after each use.

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entitled to take when a payment default is made by the principal debtor?

(A) The bank is entitled to proceed against the guarantor/surety even without exhausting remedies against the principal debtor.

(B) The bank can only proceed against the guarantor if the principal debtor is declared bankrupt.

(C) The bank must give the guarantor a notice of 90 days before initiating recovery proceedings.

(D) The bank must first exhaust all remedies against the principal debtor before approaching the guarantor.

Ans :

(A) The bank is entitled to proceed against the guarantor/surety even without exhausting remedies against the principal debtor.

The RBI circular clarified this point. It reinforces the principle of co-extensive liability, stating that upon default by the principal debtor, the bank has the discretion to proceed directly against the guarantor. The bank is not legally required to first pursue and exhaust all possible recovery actions against the principal debtor.

May/June 2009

58. Identify the correct statement regarding the autonomy of a bank guarantee.

(A) The bank guarantee is an autonomous contract, and the bank's obligation to pay is independent of the underlying contract.

(B) The bank must investigate any dispute in the main contract before honouring the guarantee.

(C) The guarantee becomes void if the main contract is suspended or terminated.

(D) The bank's liability under the guarantee is dependent on the terms of the main contract between the applicant and beneficiary.

Ans :

(A) The bank guarantee is an autonomous contract, and the bank's obligation to pay is independent of the underlying contract.

A fundamental principle governing bank guarantees is their autonomy. The guarantee is treated as a separate contract from the commercial transaction it secures. The bank's duty is to honour the demand for payment as per the guarantee's terms, without getting involved in disputes related to the performance or validity of the underlying contract.

Oct/Nov 2011

59. A, B, and C are co-sureties for D to E for a sum of ₹40,000. A is liable for ₹10,000, B for ₹20,000, and C for ₹40,000. D defaults to the extent of ₹40,000. How much are B and C liable to pay?

(A) B pays ₹20,000 and C pays ₹20,000

(B) B pays ₹13,333 and C pays ₹13,333

(C) B pays ₹10,000 and C pays ₹20,000

(D) B pays ₹15,000 and C pays ₹15,000

Ans :

(D) B pays ₹15,000 and C pays ₹15,000

The total default is ₹40,000. As per Sec. 147, co-sureties are liable to pay equally up to their individual limits. A pays his full limit of ₹10,000. The remaining debt is ₹30,000. This balance is shared equally between B and C, so each pays ₹15,000. This is within B's limit (₹20,000) and C's limit (₹40,000).

May/June 2010

60. A surety provides a guarantee for a loan. The creditor, C, subsequently obtains additional security from the principal debtor, B, for the same debt. Later, C gives up this additional security. Is the surety, A, discharged?

(A) Yes, A is fully discharged because the creditor impaired the surety's rights.

(B) No, A is not discharged because the additional security was obtained after the contract of suretyship was made.

(C) Yes, A is discharged to the extent of the value of the security given up.

(D) No, because the contract of guarantee is independent of any other security.

Ans :

(B) No, A is not discharged because the additional security was obtained after the contract of suretyship was made.

A surety is entitled to the benefit of every security which the creditor has against the principal debtor at the time when the contract of suretyship is made. If the creditor loses a security that existed at that time, the surety is discharged to that extent. However, if the security is obtained subsequently, giving it up does not discharge the surety.

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May/June 2018

28. Assertion (A): The doctrine of strict compliance is a fundamental principle in Letter of Credit transactions.
Reason (R): Banks deal only in documents, not in the underlying goods, and must ensure that presented documents conform exactly to the LC terms to authorize payment.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The doctrine of strict compliance mandates that documents presented under an LC must precisely match the requirements stipulated in the credit. This is because banks' obligations are tied to the documents alone, not the physical goods. Any deviation gives the bank the right to refuse payment, making this principle crucial for the integrity of LC operations.

Oct/Nov 2010

29. Lord Sumner observed in Equitable Trust Co. vs Dawson Partners, 'There is no room for documents which are almost the same or which will do just as well.' What key doctrine in Letter of Credit operations is encapsulated by this statement?
(A) The doctrine of independence
(B) The doctrine of subrogation
(C) The doctrine of strict compliance
(D) The doctrine of utmost good faith

Ans :

(C) The doctrine of strict compliance
Lord Sumner's famous observation emphasizes that near-compliance or substantial performance is insufficient in documentary credit transactions. The documents presented must conform precisely to the terms specified in the Letter of Credit. This principle, known as the doctrine of strict compliance, requires exactness, leaving no room for documents that are merely "almost the same" or functionally equivalent.

May/June 2014

30. Which of the following is considered the basic commercial document in an LC transaction that provides details of the sale?
(A) Bill of Lading
(B) Bill of Exchange
(C) Insurance Certificate
(D) Invoice

Ans :

(D) Invoice
The commercial invoice is a fundamental document prepared by the seller (beneficiary) that details the goods sold, their price, and other sale terms. It must be made out in the name of the applicant (buyer) and all its details must strictly correspond with the terms mentioned in the Letter of Credit to avoid discrepancies and potential rejection of documents.

Oct/Nov 2007

31. An LC requires a shipment of "100 kg of tea". The invoice presented describes the goods as "220.46 pounds of tea". How would a bank likely treat this invoice under the principle of strict compliance?
(A) Reject the invoice due to a discrepancy in the unit of measure.
(B) Accept the invoice as the quantity is equivalent.
(C) Request clarification from the buyer before making a decision.
(D) Accept the invoice but make a partial payment.

Ans :

(A) Reject the invoice due to a discrepancy in the unit of measure.
The principle of strict compliance requires that the description and details in the documents, including units of measure, must exactly match what is specified in the Letter of Credit. Converting the quantity to an equivalent measure, even if mathematically correct, constitutes a discrepancy. The bank is entitled to reject the documents for this failure to adhere strictly.

May/June 2009

32. An LC is for ₹15 lakh. The seller ships goods worth ₹20 lakh and presents an invoice requesting payment of ₹15 lakh and collection of the remaining ₹5 lakh from the buyer later. Which statement is true?

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May/June 2018

5. What problem does a deferred payment arrangement solve for a buyer importing high-value capital goods?
(A) It eliminates the need for any down payment.
(B) It ensures the goods are delivered faster than usual.
(C) It helps avoid the need for substantial immediate foreign exchange.
(D) It transfers the responsibility of customs clearance to the seller.

Ans :

(C) It helps avoid the need for substantial immediate foreign exchange.
The import of capital goods involves a substantial amount, which can place a significant strain on a buyer's foreign exchange reserves if paid upfront. A deferred payment arrangement allows the buyer to pay the price in instalments over time, thus alleviating the immediate and substantial foreign exchange requirement and making the purchase more financially manageable.

Oct/Nov 2016

6. In the context of a Deferred Payment Guarantee, who acts as the third-party guarantor?
(A) The shipping company
(B) Banks and financial institutions
(C) The insurance company
(D) The customs authority

Ans :

(B) Banks and financial institutions
In a deferred payment arrangement, a third party guarantees the payment of instalments to the seller. This role is predominantly fulfilled by banks and financial institutions. They issue the Deferred Payment Guarantee on behalf of the buyer/importer, providing the necessary security to the seller/exporter and ensuring the transaction's financial integrity over the credit period.

May/June 2014

7. What is the primary purpose of a Deferred Payment Guarantee from the seller/exporter's perspective?
(A) To ensure the buyer obtains a term loan for the purchase.
(B) To receive an unconditional guarantee for the delivery of goods.
(C) To get a better price for the goods sold.
(D) To ensure timely payment of instalments, with recourse in case of default.

Ans :

(D) To ensure timely payment of instalments, with recourse in case of default.
The core purpose of a DPG is to provide the seller/exporter with a solid assurance of payment. The guarantee ensures that instalments will be paid on time. If the buyer defaults, the seller can invoke the guarantee and receive the due payment directly from the guaranteeing bank or financial institution, thus securing their receivables.

Oct/Nov 2007

8. For which type of transaction is short-term credit generally not helpful, necessitating arrangements like a DPG?
(A) Acquisition of capital goods.
(B) Purchase of office stationery
(C) Import of seasonal fruits
(D) Payment of employee salaries

Ans :

(A) Acquisition of capital goods.
The purchase of capital goods involves substantial amounts that are typically beyond the scope of short-term credit facilities. Such high-value acquisitions require long-term financing solutions. A deferred payment arrangement, secured by a DPG, serves as a practical alternative to a term loan, allowing the buyer to spread the large payment over an extended period.

May/June 2025

9. Identify the correct statement regarding the payment structure in a typical contract for the import of goods on deferred payment terms.
(A) The entire payment is made in a series of future instalments, all of which are secured by the DPG.
(B) A small advance is paid on contract signing, with the full balance due upon final inspection of the goods at the destination.
(C) An initial advance is paid, a second payment is made against documents, and the remaining balance is paid in instalments.
(D) 50% is paid as an advance, and the remaining 50% is paid through a single, sight Letter of Credit.

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Oct/Nov 2012

37. If an LC stipulates that goods must be insured, what is a key requirement for the insurance document presented?
(A) It must be signed by the applicant (buyer).
(B) The insurance must be obtained from a company in the buyer's country.
(C) The amount, currency, and risks covered must strictly comply with the LC terms.
(D) The insurance policy must cover all possible risks, regardless of what the LC specifies.

Ans :

(C) The amount, currency, and risks covered must strictly comply with the LC terms.
Under the doctrine of strict compliance, the insurance document must conform exactly to the requirements laid out in the Letter of Credit. This includes the type of cover, the insured amount, the currency of the policy, the specific risks covered, and the place for claim settlement. Any deviation will be treated as a discrepancy by the bank.

May/June 2006

38. Which of the following is NOT a significant change introduced by UCP 600?
(A) A reduction in the number of articles from 49 (in UCP 500) to 39.
(B) The introduction of the concept of 'reasonable time' for document examination.
(C) New provisions allowing for the discounting of deferred payment credits.
(D) A definitive description of negotiation as 'purchase' of drafts of documents.

Ans :

(B) The introduction of the concept of 'reasonable time' for document examination.
UCP 600 did the opposite; it replaced the vague phrase 'reasonable time' with a definite period of five banking days for banks to accept or refuse documents. This change was made to provide more clarity and certainty for all parties involved in a documentary credit transaction, eliminating ambiguity regarding the examination period for presented documents.

Oct/Nov 2016

39. UCP 600 replaced the phrase 'reasonable time' for acceptance or refusal of documents. What is the specific timeframe now set by UCP 600 for a bank to examine documents and decide on their acceptance or refusal?
(A) A reasonable time not exceeding seven days.
(B) A period of three calendar days.
(C) A timeframe as mutually agreed between the bank and the beneficiary.
(D) A definite period of five banking days.

Ans :

(D) A definite period of five banking days.
One of the significant changes in UCP 600 was the replacement of the ambiguous term 'reasonable time' with a clear and fixed timeframe. This new rule mandates that banks have a definite period of five banking days to examine the presented documents and determine whether they constitute a compliant presentation under the LC.

May/June 2013

40. The new UCP 600 also contains the text for which supplementary set of rules governing electronic presentations?
(A) eUCP
(B) eSIGN Act
(C) SWIFT guidelines
(D) ISBP

Ans :

(A) eUCP
To keep pace with technological advancements in trade, the UCP 600 framework incorporates the 12 articles of the eUCP. The eUCP is the ICC's supplement to the UCP that governs the presentation of documents in electronic (or part-electronic) form, providing a set of rules for digital trade finance transactions under a documentary credit.

Oct/Nov 2008

41. Articles 6 to 13 of UCP 600 primarily discuss which aspect of a Letter of Credit transaction?
(A) The types of transport documents acceptable.
(B) The procedure for transferring a credit.
(C) The liabilities and responsibilities of the parties involved.
(D) The format and content of the commercial invoice.

Ans :

(C) The liabilities and responsibilities of the parties involved.

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Ans :

(A) The bank may be forbidden from claiming reimbursement from its customer.
The issuing bank has a dual responsibility. It has a duty to pay the beneficiary against compliant documents and a duty to its customer (the applicant) to only pay against such documents. If the bank defaults on this duty by accepting non-compliant documents, it breaks its mandate from the customer and loses its right to be reimbursed.

Oct/Nov 2014

59. Which of the following statements is INCORRECT regarding the documents required under an LC?
(A) The Bill of Exchange amount should be within the limit fixed in the LC.
(B) The Invoice must be made in the name of the opener/importer unless specified otherwise.
(C) Insurance documents must strictly comply with the buyer's requirements as stated in the LC.
(D) An Airway Bill is a document of title to goods, similar to a Bill of Lading.

Ans :

(D) An Airway Bill is a document of title to goods, similar to a Bill of Lading.
This statement is incorrect. Unlike a Bill of Lading, which is a document of title for sea cargo, an Airway Bill is not a document of title. It acts as a receipt for goods and evidence of the contract for air carriage. The goods are delivered to the consignee named in the Airway Bill, not to the holder of the document.

May/June 2005

60. Arrange the following steps of a typical LC transaction in the correct chronological order.
1. Importer pays the issuing bank and collects documents.
2. Exporter ships goods and presents documents to the negotiating bank.
3. Importer and exporter agree on a sales contract with payment by LC.
4. Issuing bank issues the LC and sends it to the advising bank.
5. Negotiating bank pays the exporter and forwards documents to the issuing bank.

(A) 3, 4, 2, 5, 1
(B) 3, 2, 4, 5, 1
(C) 4, 3, 2, 1, 5
(D) 2, 3, 4, 5, 1

Ans :

(A) 3, 4, 2, 5, 1
The logical sequence is: first, the trade deal is made (3); second, the buyer's bank issues the LC (4); third, the seller ships goods and presents documents (2); fourth, the seller's bank negotiates documents, pays the seller, and sends documents to the issuing bank (5); and finally, the buyer pays their bank to get the documents (1).

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Ans :

(C) The term "Unrefined" was an addition not mentioned in the LC.
Based on the principle of strict compliance, the description of the goods in the documents must match the description in the Letter of Credit exactly. The addition of the word "Unrefined" in the railway receipts created a description that was not identical to the one in the LC, thereby constituting a discrepancy that justified the bank's refusal to pay.

May/June 2024

46. In the United Commercial Bank case, payment was initially made 'under reserve' due to document discrepancies. What does 'payment under reserve' imply?
(A) A final and unconditional payment has been made.
(B) The payment is held in a special reserve account pending court orders.
(C) Only a partial payment has been made, with the rest held in reserve.
(D) The paying bank has reserved the right to get the money back if the issuing bank refuses to reimburse.

Ans :

(D) The paying bank has reserved the right to get the money back if the issuing bank refuses to reimburse.
When a negotiating bank makes a payment 'under reserve', it is a conditional payment. The bank notes discrepancies but pays the beneficiary, often against an indemnity. However, it reserves the right to have recourse to the beneficiary and reclaim the funds if the issuing bank ultimately rejects the documents and refuses to provide reimbursement for them.

Oct/Nov 2005

47. The Supreme Court reasoned that an LC 'constitutes the sole contract with the banker' and the bank has 'no concern' with issues between the buyer and seller. Based on this, with whom does the issuing bank have its primary concern?
(A) The documents presented as stipulated in the LC.
(B) The seller and the purchaser of the goods.
(C) The shipping company and the insurance provider.
(D) The customs and port authorities in the importing country.

Ans :

(A) The documents presented as stipulated in the LC.
The reasoning clearly states that the LC is the "sole contract with the banker" and the bank has "no concern" with issues between the buyer and seller. This reinforces the principle that banks deal in documents, not goods. The bank's primary duty and contractual obligation are to examine the presented documents and pay if they strictly comply with the LC's terms.

May/June 2015

48. According to the Supreme Court's reasoning in the United Commercial Bank case, a banker is not called upon to:
(A) Verify the authenticity of the documents.
(B) Know or interpret trade customs and terms.
(C) Comply with the customer's instructions.
(D) Check for discrepancies in the documents.

Ans :

(B) Know or interpret trade customs and terms.
The court's judgment reinforces the idea that a bank's role is confined to what is explicitly stated in the documents and the LC. Bankers are not expected to be experts in specific trade practices, customs, or terminology that are not defined within the credit itself. Their duty is to compare the documents against the LC text literally.

Oct/Nov 2020

49. In which exceptional circumstance might a court interfere with the payment obligation under an irrevocable Letter of Credit?
(A) In cases of minor discrepancies in the documents.
(B) In clear cases of fraud of which the banks have notice.
(C) If the buyer claims the goods are of inferior quality.
(D) If there is a dispute in the underlying sales contract.

Ans :

(B) In clear cases of fraud of which the banks have notice.
While courts are extremely reluctant to interfere with an LC, the one widely recognized exception is in cases of established or egregious fraud. If the beneficiary has committed clear fraud in

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the transaction (e.g., shipping worthless goods and presenting fraudulent documents) and the bank is made aware of it, a court may grant an injunction to prevent payment.

May/June 2007

50. Which of the following is one of the two basic principles that underline every LC transaction?
(A) The principle of strict compliance of terms.
(B) The principle of negotiable transferability.
(C) The principle of buyer's priority.
(D) The principle of flexible documentation.

Ans :

(A) The principle of strict compliance of terms.
The two fundamental principles governing all LC transactions are the doctrine of strict compliance, which demands that documents must conform exactly to the LC's requirements, and the principle of the independent nature (or autonomy) of the credit from the underlying sales contract.

Oct/Nov 2013

51. Consider the following statements about parties in an LC transaction:
1. The Applicant is also known as the Opener or Importer.
2. The Beneficiary is the party who is entitled to receive payment.
3. The Advising bank is always the same as the Confirming bank.

Which of the statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(B) 1 and 2 only
Statement 1 is correct as the applicant, opener, and importer all refer to the buyer. Statement 2 is correct as the beneficiary is the seller who receives payment. Statement 3 is incorrect; an advising bank simply authenticates and forwards the LC. It only becomes a confirming bank if it adds its own separate undertaking to pay, which is an additional function.

May/June 2019

52. Which statement correctly identifies the distinction between 'With Recourse' and 'Without Recourse' credits?
(A) 'With Recourse' allows the beneficiary to transfer the credit, while 'Without Recourse' does not.
(B) In a 'With Recourse' credit the beneficiary is not liable if the drawee fails to pay, whereas in a 'Without Recourse' credit, they are liable.
(C) 'With Recourse' is for domestic trade, while 'Without Recourse' is for international trade.
(D) In a 'With Recourse' credit the beneficiary is liable if the drawee fails to pay, whereas in a 'Without Recourse' credit, they are not.

Ans :

(D) In a 'With Recourse' credit the beneficiary is liable if the drawee fails to pay, whereas in a 'Without Recourse' credit, they are not.
The term 'recourse' refers to the right of a holder of a bill of exchange to claim payment from the drawer (beneficiary) if the drawee (issuing bank) dishonors it. A standard LC is 'with recourse'. If the beneficiary adds 'without recourse' to the bill, they are protected from such a claim from the negotiating bank.

Oct/Nov 2011

53. Identify the incorrect pair from the following options.
(A) Acceptance Credit - Involves usance bills honoured on maturity.
(B) Back-to-Back Credit - One LC is used to open another LC for a supplier.
(C) Transferable Credit - Allows the buyer to transfer payment obligation.
(D) Revolving Credit - Automatically renews for regular shipments.

Ans :

(C) Transferable Credit - Allows the buyer to transfer payment obligation.
A Transferable Credit allows the first beneficiary (the seller or an intermediary), not the buyer (applicant), to transfer their rights to receive payment to a second beneficiary (the ultimate supplier). The buyer's obligation to pay their bank remains unchanged. All other pairs correctly match the credit type with its primary function.

May/June 2022

54. From the list below, identify the document that is NOT primarily a transport document.
(A) Bill of Lading
(B) Certificate of Origin
(C) Airway Bill

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(D) Courier Receipt

Ans :

(B) Certificate of Origin
A Bill of Lading, Airway Bill, and Courier Receipt are all transport documents that evidence a contract of carriage for goods. A Certificate of Origin, however, is an ancillary document. It does not relate to the transport itself but rather certifies the country where the goods were manufactured, which is important for customs, tariffs, and import eligibility.

Oct/Nov 2009

55. A bank receives documents under an LC that contain discrepancies. The beneficiary insists that the discrepancies are minor and commercially insignificant. What is the bank's duty under the principle of strict compliance?
(A) The bank must accept the documents if the discrepancies are truly minor.
(B) The bank must seek the buyer's opinion before deciding.
(C) The bank should pay 'under reserve' automatically.
(D) The bank has the right to refuse payment, as its duty is to ensure strict adherence to LC terms.

Ans :

(D) The bank has the right to refuse payment, as its duty is to ensure strict adherence to LC terms. The doctrine of strict compliance means a bank is not required to judge the commercial significance of a discrepancy. Its role is to compare the documents against the LC terms. Any deviation, regardless of how minor it may seem, gives the bank the right to reject the documents and refuse payment, as established in cases like Equitable Trust Co. vs Dawson Partners.

May/June 2016

56. Consider the following LC types:
1. Red Clause Credit
2. Green Clause Credit
3. Acceptance Credit
4. Revolving Credit

Which of these are considered 'anticipatory credits' because they provide for payment before the main condition (shipment) is fully met?
(A) 1 and 2 only
(B) 3 and 4 only
(C) 1, 2, and 3 only
(D) All of the above

Ans :

(A) 1 and 2 only
Red Clause and Green Clause credits are specifically referred to as anticipatory credits. This is because they contain provisions that authorize advance payments to the beneficiary before the shipment of goods. This pre-payment is made in anticipation of the seller making the shipment and eventually presenting compliant documents for the full value of the goods.

Oct/Nov 2025

57. A beneficiary of a transferable LC, who is a middleman, wants to transfer the credit to the actual manufacturer of the goods. Which statement about this process is correct?
(A) The middleman can transfer the credit for a higher value than the original LC.
(B) Once transferred, the middleman has no further role in the transaction.
(C) The transfer can only happen if the LC is explicitly stated as "transferable".
(D) The transfer automatically makes the LC a confirmed credit.

Ans :

(C) The transfer can only happen if the LC is explicitly stated as "transferable".
The right to transfer is not inherent in a Letter of Credit. For a beneficiary to be able to transfer their rights to a second beneficiary, the credit must be expressly designated as "transferable" by the issuing bank. Without this specific wording, the credit is considered non-transferable, and the beneficiary cannot pass on their rights under it.

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May/June 2011

58. An issuing bank owes a duty to its customer to ensure documents comply with the LC. What is the direct consequence for the bank if it defaults on this duty by paying against non-compliant documents?
(A) The bank may be forbidden from claiming reimbursement from its customer.
(B) The bank can still claim reimbursement from the customer.
(C) The bank must seek reimbursement from the advising bank.
(D) The bank can sue the beneficiary for presenting non-compliant documents.

(A) This is acceptable as the amount drawn under the LC is correct.
(B) This would not comply with the credit terms and the buyer can reject the documents.
(C) The bank should pay the full ₹20 lakh and debit the buyer.
(D) The bank should pay ₹15 lakh and ignore the excess amount.

Ans :

(B) This would not comply with the credit terms and the buyer can reject the documents.
Shipping goods with a value exceeding the LC amount and invoicing in this manner creates a discrepancy. The LC covers a specific transaction value, and introducing an over-shipment with a separate collection instruction violates the principle of strict compliance. The buyer (opener) would be legally entitled to reject the documents presented under such conditions.

Oct/Nov 2024

33. In an LC transaction, which document evidences the shipment of goods by sea and is also a document of title?
(A) Airway Bill
(B) Bill of Lading
(C) Bill of Exchange
(D) Post Parcel Receipt

Ans :

(B) Bill of Lading
The Bill of Lading is a unique transport document used for sea freight. It serves three functions: a receipt for the goods from the carrier, evidence of the contract of carriage, and most importantly, a document of title. The lawful holder of the Bill of Lading is entitled to take possession of the goods upon their arrival.

May/June 2020

34. Identify the INCORRECT statement regarding a Bill of Lading.
(A) A 'received for shipment' bill of lading is generally acceptable unless the LC specifies otherwise.
(B) It is issued in sets of 2, 3, or 4 originals.
(C) It is a document of title to goods.
(D) A bona fide transfer of the bill by endorsement transfers the right to the goods.

Ans :

(A) A 'received for shipment' bill of lading is generally acceptable unless the LC specifies otherwise.
Unless an LC explicitly permits it, a 'received for shipment' bill of lading is not acceptable. Banks require a 'shipped on board' bill of lading. This provides confirmation that the goods have actually been loaded onto a specific vessel, rather than merely being in the custody of the transporter at the port, offering greater security.

Oct/Nov 2021

35. What is a key difference between an Airway Bill and a Bill of Lading?
(A) An Airway Bill is used for sea transport, while a Bill of Lading is for air transport.
(B) An Airway Bill is a document of title to goods, whereas a Bill of Lading is not.
(C) A Bill of Lading is a document of title to goods, whereas an Airway Bill is not.
(D) An Airway Bill is negotiable, while a Bill of Lading is non-negotiable.

Ans :

(C) A Bill of Lading is a document of title to goods, whereas an Airway Bill is not.
A Bill of Lading represents title to the goods, and possession of it is required to claim the cargo. In contrast, an Airway Bill is merely a receipt for goods and evidence of the contract of carriage for air transport. It is not a document of title; the goods are typically consigned directly to the named party.

May/June 2017

36. Which of the following documents are similar in nature to an Airway Bill, in that they are not documents of title but merely evidence entrustment of goods for transportation?
(A) Bill of Lading and Bill of Exchange
(B) Insurance Policy and Certificate of Origin
(C) Commercial Invoice and Packing List
(D) Post Parcel Receipt and Courier Receipt

Ans :

(D) Post Parcel Receipt and Courier Receipt
Post Parcel Receipts and Courier Receipts, like Airway Bills, serve as evidence that goods have been handed over for transport. However, they do not confer title to the goods upon the holder. The goods are delivered to the consignee named in the document, making them non-negotiable instruments of title, unlike a Bill of Lading.

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CHAPTER 33

Deferred Payment Guarantee

May/June 2021

1. What is the primary function of a 'Deferred Payment Guarantee' (DPG)?

(A) To finance the initial down payment for capital goods.

(B) To assure an exporter of timely payment of instalments by an importer.

(C) To provide short-term working capital to the importer.

(D) To guarantee the quality and specifications of the imported goods.

Ans :

(B) To assure an exporter of timely payment of instalments by an importer.

A Deferred Payment Guarantee is a bank's undertaking to an exporter, assuring that the importer will make all future instalment payments as scheduled. It primarily addresses the credit risk the exporter faces when selling goods on a deferred payment basis, especially over a long period, by guaranteeing the payment of these instalments.

Oct/Nov 2010

2. In a typical scenario leading to the issuance of a DPG, who approaches a banker to obtain the guarantee?

(A) The importer, to provide security to the exporter.

(B) The exporter, to secure their own bank's financing.

(C) A third-party logistics provider, to guarantee shipment.

(D) The exporter's bank, to share the risk with the importer's bank.

Ans :

(A) The importer, to provide security to the exporter.

To mitigate the risk of non-payment over an extended credit period, the exporter requests the importer to provide a guarantee. Consequently, the importer, who is the bank's customer, approaches their banker to issue a Deferred Payment Guarantee in favor of the exporter, thereby securing the transaction and assuring the payment of future instalments.

May/June 2005

3. What is the fundamental risk that a Deferred Payment Guarantee is designed to mitigate for an exporter?

(A) The risk of goods being damaged during transit.

(B) The risk of foreign exchange rate fluctuations.

(C) The risk of the importer going bankrupt or failing to pay instalments.

(D) The risk of the importer rejecting the goods due to quality issues.

Ans :

(C) The risk of the importer going bankrupt or failing to pay instalments.

When goods are sold on deferred payment terms, the exporter faces the risk that the importer might default on future instalments due to financial distress, bankruptcy, or other reasons. A DPG directly mitigates this credit risk by having a bank guarantee these payments, ensuring the exporter receives the full amount over the agreed period.

Oct/Nov 2022

4. A DPG is described as another method of financing for which type of asset?

(A) Raw materials

(B) Consumer durables

(C) Inventory

(D) Fixed assets

Ans :

(D) Fixed assets

A Deferred Payment Guarantee is specifically identified as a method for financing fixed assets. This is because DPGs are typically used for high-value transactions involving capital goods, such as machinery and equipment, which are paid for in instalments over a long period. The guarantee facilitates the acquisition of these significant assets by the buyer.

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Articles 6 through 13 of UCP 600 form a core part of the rules by defining the specific obligations and roles of the various parties in an LC transaction. This includes the undertakings of the issuing bank, confirming bank, and the responsibilities of the advising bank, establishing a clear framework for their respective duties and liabilities.

May/June 2023

42. The Supreme Court has consistently held that the obligation of a bank to pay under a Letter of Credit is:

(A) Primary and independent of the underlying contract.
(B) Secondary to the underlying trade contract.
(C) Dependant on the quality of the goods delivered.
(D) Conditional upon the buyer's final approval of the documents.

Ans :

(A) Primary and independent of the underlying contract.
A fundamental principle of LCs, repeatedly upheld by courts including the Supreme Court, is the 'autonomy principle'. This means the bank's obligation to pay against compliant documents is separate from and independent of the actual sales contract between the buyer and seller. The bank deals in documents, not goods, and its duty to pay is primary.

Oct/Nov 2022

43. In the case of Tarapore and Company vs. V/O Tractors Export, the Indian firm sought to prevent the Russian firm from realizing the balance payment under an LC, citing unsatisfactory performance of the machinery. What was the Supreme Court's general stance on interfering with an irrevocable LC?

(A) The court should always interfere to protect the domestic buyer.
(B) The court can freely grant injunctions if the underlying goods are defective.
(C) Interference is justified if the foreign seller has no assets in India.
(D) The court should not interfere with the mechanism of an irrevocable LC except in exceptional circumstances.

Ans :

(D) The court should not interfere with the mechanism of an irrevocable LC except in exceptional circumstances.
The Supreme Court, in this case, emphasized the importance of the autonomy of an irrevocable LC in international trade. It ruled that judicial interference with this payment mechanism should be avoided, as it could have serious repercussions on the country's trade. The bank's obligation is to the documents, not the performance of the underlying contract.

May/June 2010

44. What did the Supreme Court observe regarding the relationship between a Letter of Credit and the underlying contract of sale?

(A) The two are inter-dependent, and a breach of one affects the other.
(B) A letter of credit is independent of an unqualified contract of sale or underlying transaction.
(C) The bank must verify the performance of the sales contract before honoring the LC.
(D) The buyer can terminate the LC if the seller breaches the sales contract.

Ans :

(B) A letter of credit is independent of an unqualified contract of sale or underlying transaction.
The court's observation highlights the 'principle of independence' or 'autonomy'. The Letter of Credit constitutes a separate contract between the bank and the beneficiary. The bank's duty to pay is determined by the presentation of conforming documents, irrespective of any disputes, claims, or breaches related to the underlying sales contract between the buyer and seller.

Oct/Nov 2018

45. In United Commercial Bank vs Bank of India, the main discrepancy noted was the description of goods in the railway receipts as 'Sizola Brand Pure Mustard Oil "Unrefined"'. Why was this considered a discrepancy?

(A) The brand name was incorrect.
(B) The quantity of goods was wrong.
(C) The term "Unrefined" was an addition not mentioned in the LC.
(D) The railway receipt was a fraudulent document.

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Ans :

(C) An initial advance is paid, a second payment is made against documents, and the remaining balance is paid in instalments.

A common payment structure for deferred payment imports involves three stages. First, the buyer makes an advance payment. Second, another portion is paid upon receipt of documents under a letter of credit. Finally, the remaining balance amount is paid in instalments over an agreed period, and these instalments are secured by a Deferred Payment Guarantee.

Oct/Nov 2019

10. In a typical deferred payment contract for imports, what is the usual range for the advance payment made by the buyer?

(A) 10% to 15% of the price
(B) 5% to 10% of the price
(C) 20% to 25% of the price
(D) 25% to 30% of the price

Ans :

(A) 10% to 15% of the price

According to the standard terms for a contract involving deferred payments, the process typically begins with the buyer making an initial advance payment. This advance payment is generally in the range of 10% to 15% of the total price of the goods being imported, providing the seller with initial security and commitment from the buyer.

May/June 2009

11. Following the advance payment, what event triggers the second payment of 10% to 15% in a deferred payment import?

(A) The signing of the sales contract.
(B) The start of manufacturing of the goods.
(C) The final installation of the machinery at the buyer's site.
(D) The receipt of documents under a letter of credit.

Ans :

(D) The receipt of documents under a letter of credit.

The payment methodology for deferred payment imports is structured in phases. After the initial advance payment, a second tranche, also typically between 10% and 15% of the price, is paid by the buyer. This payment is contingent upon the buyer's receipt of shipping documents presented under an associated letter of credit, confirming shipment of the goods.

Oct/Nov 2011

12. What is the typical time frame over which the balance amount is paid in instalments under a DPG?

(A) 3 to 6 months
(B) 1 to 7 years
(C) 6 months to 1 year
(D) 8 to 10 years

Ans :

(B) 1 to 7 years.

After the initial advance and the payment against documents, the substantial balance amount of the contract price is settled over an extended period. This period, during which the buyer pays in instalments, is typically structured to range from one to seven years, with these payments being secured by the Deferred Payment Guarantee issued by a bank.

May/June 2010

13. Which of the following is a mandatory term in a Deferred Payment Guarantee arrangement, serving as the consideration for the guarantee?

(A) The buyer must provide 100% cash collateral to the bank.
(B) The seller must use a specific shipping line nominated by the bank.
(C) The seller agrees to postpone the payment of the price.
(D) The buyer must take out a separate insurance policy for political risk.

Ans :

(C) The seller agrees to postpone the payment of the price.

A key mandatory condition for a DPG is the underlying agreement where the seller supplies goods to the buyer and consents to postpone receiving the full payment. This act of deferring the payment constitutes the fundamental consideration for the guarantee, as the bank's undertaking is predicated on this specific credit arrangement between the buyer and seller.

Oct/Nov 2024

14. What specific information must be included as a mandatory term in a Deferred Payment Guarantee?

(A) The manufacturing details of the goods.

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undertaking. The bank's liability to pay is triggered simply and directly by the beneficiary (the exporter) formally demanding payment under the terms of the guarantee, an act known as invocation.

May/June 2012

39. Why is a DPG considered a more suitable solution than short-term credit for the purchase of capital goods?

(A) DPGs consistently offer a significantly lower interest rate than standard short-term credit lines.

(B) Standard short-term credit facilities are generally prohibited for use in international import transactions.

(C) The large value and long repayment period for capital goods match the structure of a DPG.

(D) DPGs are typically much easier and faster for an importer to obtain from a bank than short-term credit.

Ans :

(C) The large value and long repayment period for capital goods match the structure of a DPG.

Short-term credit is designed for financing current assets over a brief period. Capital goods involve large investments that need to be paid off over several years. A deferred payment structure, backed by a DPG, is specifically designed for such long-term, high-value transactions, making it a far more appropriate financial tool in this context.

Oct/Nov 2014

40. Which statement accurately describes the relationship between a DPG and a Letter of Credit (LC) in the same transaction?

(A) The LC covers an initial payment, while the DPG is used to secure the subsequent instalment payments.

(B) They are mutually exclusive instruments and legally cannot be used in the same trade transaction.

(C) The DPG's primary function is to act as a secondary guarantee for the payment made under the LC.

(D) The DPG is simply an older, now obsolete, form of a standard documentary credit like an LC.

Ans :

(A) The LC covers an initial payment, while the DPG is used to secure the subsequent instalment payments.

In a typical deferred payment structure for imports, an LC is used to facilitate an early-stage payment (e.g., 10%–15% of the value) against the presentation of shipping documents. The DPG is then used to secure the much larger balance amount, which is paid in instalments over several years. They work together to structure the entire payment.

May/June 2019

41. "The payment schedule is usually incorporated in the main contract between the buyer/importer and the seller/exporter, and the bank guarantees the payment as stipulated in the schedule. Some banks as a matter of abundant caution incorporate the same in the guarantee issued by them that would a verbatim reproduction of the payment schedule from the main contract."

What is the primary motivation for a bank to include a "verbatim reproduction" of the payment schedule in the DPG?

(A) To fulfill a legal requirement under international law.

(B) To increase the complexity of the guarantee document.

(C) To allow the buyer to renegotiate the payment dates with the bank directly.

(D) To act with "abundant caution" and prevent ambiguity.

Ans :

(D) To act with "abundant caution" and prevent ambiguity.

The text explicitly states that this practice is undertaken by some banks as a "matter of abundant caution." The goal is to ensure there is no misunderstanding or dispute regarding the exact dates and amounts of payments that the bank has guaranteed, by having the schedule directly and precisely stated within the guarantee document itself.

Oct/Nov 2006

42. What are the two key characteristics that define the bank's assurance in a DPG?

(A) Conditional and Revocable

(B) Unconditional and Irrevocable.

(C) Partial and Short-term

(D) Transferable and Divisible

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Ans :

(A) To ensure absolute clarity and avoid any ambiguity regarding payment obligations.
Although the payment schedule is part of the main contract between the buyer and seller, some banks choose to reproduce it exactly within the guarantee document itself. This is done as an extra precaution to eliminate any potential disputes or ambiguities regarding the specific amounts and due dates of the guaranteed payments.

May/June 2013

19. A German exporter, 'Maschinen GmbH', sells a turbine to an Indian company, 'PowerGen Ltd.', for €10 million on deferred payment terms. To secure the future instalments, PowerGen Ltd.'s bank issues a DPG. Maschinen GmbH draws usance bills for each instalment. What advantage does this provide to Maschinen GmbH?
(A) It allows Maschinen GmbH to cancel the transaction at any time.
(B) It forces PowerGen Ltd. to pay a higher interest rate.
(C) It allows Maschinen GmbH to discount the bills with its bank for early funds.
(D) It transfers the shipping responsibility to PowerGen Ltd.

Ans :

(C) It allows Maschinen GmbH to discount the bills with its bank for early funds.
When the seller/exporter draws usance bills for the deferred instalments and these bills are guaranteed by the buyer's bank, it creates a negotiable instrument. The primary advantage for the seller is the ability to discount these guaranteed bills with their own bank, thereby receiving the funds early instead of waiting for each instalment to mature.

Oct/Nov 2021

20. What is the nature of a bank's undertaking in a Deferred Payment Guarantee, similar to other bank guarantees?
(A) To make payment without demur or protest upon invocation.
(B) To make payment only after all legal disputes are settled.
(C) To act as a mediator between the buyer and seller.
(D) To pay only if the buyer is declared bankrupt by a court.

Ans :

(A) To make payment without demur or protest upon invocation.
A core principle of bank guarantees, including DPGs, is the commitment to pay promptly upon a valid claim. The bank undertakes to make the payment "without any demur or protest." This means the payment is made based on the strength of the unconditional and irrevocable assurance given, independent of any disputes in the underlying contract.

May/June 2024

21. What fundamental principle governs the relationship between a bank's liability under a DPG and the underlying contract between the buyer and seller?
(A) The bank's liability is secondary to the buyer's obligation.
(B) The bank's liability is conditional upon the perfect performance of the underlying contract.
(C) The bank's liability is limited to the value of the goods specified in the contract.
(D) The bank's liability is primary and independent of the underlying contract.

Ans :

(D) The bank's liability is primary and independent of the underlying contract.
The principle of autonomy fully applies to DPGs. This means the bank's obligation to pay under the guarantee is a primary duty and is completely separate from the sales contract between the buyer and seller. The bank must honor the guarantee when invoked, irrespective of any disputes or claims related to the main contract.

Oct/Nov 2008

22. "In a deferred payment guarantee, like other bank guarantees, the banks undertake to make payment without any demur or protest, since the bank has given an unconditional and irrevocable assurance to the seller/exporter. It is on such assurance that the seller/exporter has sold the goods. The principle that bank's liability in a bank guarantee is primary and independent of the underlying contract between the buyer/importer and the seller/exporter applies in toto to a DPG also."
Based on the text, why does the bank make payment "without any demur or protest"?

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(B) The logistics and shipping schedule.
(C) The credit rating of the buyer and seller.
(D) The payment schedule for both instalment and interest.

Ans :

(D) The payment schedule for both instalment and interest.
For a Deferred Payment Guarantee to be clear and enforceable, it is mandatory to include the precise payment schedule. This schedule must detail the due dates and amounts for both the principal instalments and any applicable interest. This ensures that all parties—buyer, seller, and the guaranteeing bank—have an unambiguous understanding of the payment obligations.

May/June 2017

15. What type of assurance must a bank provide in a Deferred Payment Guarantee?
(A) An unconditional and irrevocable assurance of payment upon invocation.
(B) A conditional assurance, subject to the buyer's financial health.
(C) A revocable assurance, which can be cancelled by the bank.
(D) A partial assurance, covering only the principal amount but not interest.

Ans :

(A) An unconditional and irrevocable assurance of payment upon invocation.
A mandatory feature of a DPG is the bank's commitment to pay. This commitment must be both unconditional, meaning it is not subject to any external conditions related to the underlying contract, and irrevocable, meaning it cannot be cancelled by the bank. The bank must pay upon a valid invocation of the guarantee without delay.

Oct/Nov 2005

16. What is the bank's stance regarding the quality of goods shipped under a transaction covered by a DPG?
(A) The bank is responsible for inspecting the goods before shipment to ensure compliance.
(B) The bank does not take responsibility for ensuring the goods conform to the buyer's requirements.
(C) The bank guarantees that the goods shipped will perfectly match the contract specifications.
(D) The bank becomes liable for damages if the buyer receives defective or non-conforming goods.

Ans :

(B) The bank does not take responsibility for ensuring the goods conform to the buyer's requirements.
A bank issuing a DPG is concerned only with the financial aspect of the transaction, not the physical goods. It does not assume any responsibility for verifying that the goods shipped conform to the buyer's requirements or the sales contract. The bank's obligation is to pay against compliant documents and a valid invocation of the guarantee.

May/June 2020

17. Under what circumstances can a buyer request the bank to stop payment on a DPG after receiving the goods?
(A) The buyer can request a stop payment if the goods are found to be defective.
(B) The buyer cannot request a stop payment on the grounds of receiving defective goods.
(C) The buyer can request a stop payment if the market price of the goods has fallen.
(D) The buyer can request a stop payment if they face a sudden financial crunch.

Ans :

(B) The buyer cannot request a stop payment on the grounds of receiving defective goods.
The principle of autonomy dictates that the bank's guarantee is independent of the underlying sales contract. As long as the initial documents were valid as required, the guarantee subsists. Therefore, the buyer cannot instruct the bank to stop payment on the DPG, even if the goods are later found to be defective or non-conforming.

Oct/Nov 2015

18. Why do some banks, as a matter of abundant caution, incorporate a verbatim reproduction of the payment schedule into the DPG document?
(A) To ensure absolute clarity and avoid any ambiguity regarding payment obligations.
(B) To increase the guarantee commission fee.
(C) To make the guarantee document longer and more official.
(D) To transfer the liability for defective goods to the seller.

NODIA

primary and independent of the underlying sales contract.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; banks do not get involved in quality disputes. Reason (R) is also true; the principle of autonomy makes the guarantee a separate undertaking. Reason (R) correctly explains (A) because it is precisely this independence from the main contract that absolves the bank of responsibility for the goods' quality and obligates it to pay.

May/June 2015

27. Which of the following statements about Deferred Payment Guarantees is incorrect?

(A) They are used to finance the purchase of fixed assets.
(B) They involve a third party, typically a bank, guaranteeing payments.
(C) They provide assurance to the seller that instalment payments will be made.
(D) They are issued by the exporter's bank in favor of the importer.

Ans :

(D) They are issued by the exporter's bank in favor of the importer.
A Deferred Payment Guarantee is issued by the importer's (buyer's) bank in favor of the exporter (seller). The importer is the bank's customer who requests the guarantee to provide security to the exporter. The guarantee flows from the buyer's side to the seller's side, not the other way around, making this statement incorrect.

Oct/Nov 2012

28. 'SteelFab Corp.' in India imports machinery worth $2 million from 'Global Tools Inc.' in the USA. The payment terms are: 15% advance, 10% on presentation of shipping documents, and the balance in 10 semi-annual instalments. Global Tools Inc. is worried about default. What should SteelFab Corp. do to complete the deal?

(A) Ask its bank to issue a Deferred Payment Guarantee in favor of Global Tools Inc.
(B) Offer to pay 100% in advance.
(C) Ask its bank to issue a performance guarantee.
(D) Suggest that Global Tools Inc. take out credit insurance.

Ans :

(A) Ask its bank to issue a Deferred Payment Guarantee in favor of Global Tools Inc.
This scenario perfectly matches the purpose of a DPG. The transaction involves capital goods, a deferred payment structure with instalments, and an exporter concerned about default risk. The appropriate solution is for the importer (SteelFab Corp.) to have its bank issue a DPG to assure the exporter (Global Tools Inc.) of the future instalment payments.

May/June 2011

29. A seller/exporter draws usance bills on the buyer/importer for the deferred instalments, and these bills are guaranteed by the bank. What does this arrangement facilitate?

(A) It allows the buyer to delay payments beyond the agreed dates.
(B) It eliminates the need for the bank to issue a separate DPG document.
(C) It allows the seller to obtain early payment by discounting the bills.
(D) It transfers the credit risk from the buyer's bank to the seller's bank.

Ans :

(C) It allows the seller to obtain early payment by discounting the bills.
The creation of bank-guaranteed usance bills provides the seller/exporter with a significant advantage. These bills become marketable financial instruments. The seller can then sell or "discount" these bills with their own bank to receive the present value of the future instalments immediately, improving their cash flow without waiting for the credit period to end.

Oct/Nov 2020

30. Consider the following statements regarding a Deferred Payment Guarantee:

1. The bank guarantees the quality of the goods.
2. The bank's liability is primary and independent of the main contract.
3. The buyer can stop payment if the goods are defective.

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(A) Because the seller/exporter relied on the bank's unconditional and irrevocable assurance.
(B) Because the seller/exporter has already proven the buyer's default in a court of law.
(C) Because the bank is acting as an agent for the buyer/importer.
(D) Because the bank has physically inspected and approved the goods.

Ans :

(A) Because the seller/exporter relied on the bank's unconditional and irrevocable assurance.
The provided text explicitly states that the bank's undertaking to pay without protest is a direct consequence of the unconditional and irrevocable assurance it has given. The seller/exporter entered into the deferred payment sales contract in reliance on this very assurance from the bank, making the bank's payment obligation a direct and primary one.

May/June 2006

23. A Deferred Payment Guarantee is usually insisted upon by the seller/exporter under what specific circumstance?
(A) When any goods are sold on credit, regardless of value.
(B) The buyer has a very high credit rating.
(C) When capital goods are imported, and instalment payments are allowed.
(D) When payment is made in full before shipment.

Ans :

(C) When capital goods are imported, and instalment payments are allowed.
DPGs are not used for all credit sales but are specifically insisted upon in high-value transactions, particularly when capital goods are imported. The long payment period and the substantial amount involved create a significant risk for the exporter, who then requires the additional security of a bank guarantee to ensure instalment payments are met.

Oct/Nov 2017

24. What best summarizes the nature of a Deferred Payment Guarantee (DPG)?
(A) A conditional loan agreement extended by a bank directly to an exporter.
(B) A revocable promise by a bank to consider payment if the buyer defaults on the loan.
(C) A negotiable trade document that serves as legal proof of ownership of the goods.
(D) An unconditional and irrevocable guarantee from a bank ensuring future instalment payments.

Ans :

(D) An unconditional and irrevocable guarantee from a bank ensuring future instalment payments.
The summary of the chapter defines a DPG as an unconditional and irrevocable guarantee given by a bank to a seller/exporter. Its purpose is to ensure that if goods are supplied on an instalment basis, the bank will guarantee the payment on the due dates, providing a strong financial safeguard for the seller.

May/June 2008

25. The practice of deferred payment, supported by DPGs, emerged as a solution to what primary challenge in international trade?
(A) The buyer's difficulty in securing a term loan or managing a large, immediate foreign exchange payment.
(B) The logistical complexity and high insurance costs of shipping large capital goods internationally.
(C) The general lack of reliable international credit rating agencies for assessing buyer risk.
(D) The seller's common inability to finance production without receiving a full advance payment.

Ans :

(A) The buyer's difficulty in securing a term loan or managing a large, immediate foreign exchange payment.
The chapter explains that deferred payment practices emerged as a solution for buyers who found short-term credit unhelpful and faced disadvantages due to the requirement of a substantial amount of foreign exchange for upfront payment. A DPG facilitates the transaction by allowing payment over time while still providing security to the seller.

Oct/Nov 2013

26. Assertion (A): A bank issuing a DPG is not concerned with disputes over the quality of goods between the buyer and seller.
Reason (R): The bank's liability under a DPG is

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Making the guarantee conditional on the quality of goods would violate the principle of autonomy and defeat its purpose as a reliable payment instrument. The other three options are explicitly listed as mandatory terms for a valid DPG arrangement.

May/June 2023

35. Match List-I with List-II regarding the DPG process and select the correct code.

List-I (Action)

P. Initial payment by buyer
Q. Security for balance payment
R. Realization of funds before maturity
S. Basis for bank's payment obligation

List-II (Term/Instrument)

1. Discounting of Usance Bills
2. Invocation of Guarantee
3. Advance Payment (10%-15%)
4. Deferred Payment Guarantee

Code:

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2
The initial payment made by the buyer is the Advance Payment (P-3). The security instrument for the remaining balance is the Deferred Payment Guarantee (Q-4). The process by which an exporter can get funds early is by Discounting Usance Bills (R-1). The bank's obligation to pay is triggered by the Invocation of the Guarantee (S-2).

Oct/Nov 2018

36. A bank has issued a DPG for its customer, an importer. The exporter ships the goods and presents all documents as required. After receiving the goods, the importer finds they are of an inferior quality and instructs the bank not to pay the upcoming instalment. What should the bank do?

(A) Obey the customer's instruction and formally refuse to make the payment.
(B) Ignore the instruction and pay the instalment if the guarantee is properly invoked.
(C) Act as a neutral party to mediate a settlement between the importer and exporter.
(D) Inform both parties that the DPG has been cancelled effective immediately.

Ans :

(B) Ignore the instruction and pay the instalment if the guarantee is properly invoked.
The bank's obligation under the DPG is independent of the underlying sales contract. Disputes regarding the quality of goods are between the buyer and seller. The bank must honor its unconditional and irrevocable commitment. Therefore, it must disregard the importer's instruction and pay upon a valid invocation by the exporter.

May/June 2007

37. Consider the following statements about the payment structure under a DPG:

1. The entire contract value is paid in instalments over 1 to 7 years.
2. A portion of the payment is typically made against documents under a Letter of Credit.
3. The DPG secures only the interest portion of the deferred payments.

Which of the statements is/are correct?

(A) 2 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(A) 2 only
Statement 1 is incorrect because there are initial down payments; the DPG only secures the balance. Statement 3 is incorrect as the DPG secures the balance amount, which includes both principal instalments and interest. Statement 2 is correct, as a payment of 10%-15% upon receipt of documents under an LC is a standard part of the structure.

Oct/Nov 2025

38. The assurance given by the bank in a DPG is that it would make payments on the...

(A) invocation of the guarantee.
(B) successful installation of the machinery.
(C) buyer's confirmation of satisfaction.
(D) final settlement of disputes.

Ans :

(A) invocation of the guarantee.
The bank's promise is not tied to the performance of the underlying contract or the buyer's satisfaction. The guarantee is a separate

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Which of the above statements is/are correct?
(A) 1 and 3 only
(B) 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 2 only
Statement 1 is incorrect as the bank does not take responsibility for the goods. Statement 3 is incorrect because the buyer cannot stop payment on grounds of defective goods due to the guarantee's autonomy. Only statement 2 is correct; the principle of autonomy makes the bank's liability primary and independent of the underlying sales contract.

May/June 2022

31. "In a contract for import of goods on deferred payment terms, over a period of time (may range from 1 to 7 years), the payment is usually done on the following terms:
1. Advance payment of 10% to 15% of the price of the goods is made by the buyer.
2. Another 10% to 15% is paid on receipt of documents under letter of credit.
3. The balance amount is paid in instalments over 1 to 7 years, secured by a 'Deferred Payment Guarantee'."

Based on this text, what portion of the total price is typically secured by the DPG?
(A) 70% to 80% of the price
(B) 100% of the price
(C) 85% to 90% of the price
(D) 10% to 15% of the price

Ans :

(A) 70% to 80% of the price
The text states that an initial 10% to 15% is paid as an advance, and another 10% to 15% is paid against documents. This means a total of 20% to 30% is paid upfront. The DPG secures the "balance amount." Therefore, the DPG covers 100% minus (20% to 30%), which equals 70% to 80% of the total price.

Oct/Nov 2023

32. In a DPG transaction, the bank's guarantee subsists and remains enforceable as long as what condition is met?
(A) The buyer has formally accepted the goods.
(B) The documents presented under the letter of credit are valid.
(C) The seller has provided a warranty for the goods.
(D) The buyer's financial condition remains stable.

Ans :

(B) The documents presented under the letter of credit are valid.
The text clarifies that the bank's guarantee is linked to the documentary compliance of the transaction. If the documents presented are valid as required under the letter of credit, the guarantee subsists. The subsequent discovery of defects in the actual goods does not invalidate the guarantee or the bank's obligation to pay upon invocation.

May/June 2016

33. Identify the incorrect pair with respect to parties and their roles in a DPG.
(A) Importer : Applicant for the guarantee
(B) Exporter : Beneficiary of the guarantee
(C) Exporter's Bank : Issuer of the guarantee
(D) Importer's Bank : Guarantor

Ans :

(C) Exporter's Bank : Issuer of the guarantee
In a DPG arrangement, the guarantee is issued by the importer's (buyer's) bank at the request of the importer. The exporter (seller) is the beneficiary who receives the guarantee. Therefore, stating that the exporter's bank is the issuer of the guarantee is incorrect. The issuer is always the importer's or buyer's bank.

Oct/Nov 2009

34. Which of the following is NOT one of the mandatory terms for a Deferred Payment Guarantee?
(A) An unconditional and irrevocable assurance of payment from the bank.
(B) A detailed payment schedule for instalments and interest.
(C) The seller's agreement to postpone the payment of the price.
(D) A clause making the guarantee conditional on the quality of goods.

Ans :

(D) A clause making the guarantee conditional on the quality of goods.
A fundamental characteristic of a DPG is its independence from the physical transaction.

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Ans :

(B) Unconditional and Irrevocable.
The text repeatedly emphasizes that the bank's assurance must be both unconditional (not dependent on any outside event, such as the performance of the main contract) and irrevocable (cannot be unilaterally cancelled by the bank). These two features provide the highest level of payment security to the exporter, which is the core purpose of the guarantee.

May/June 2021

43. A DPG ensures timely payment of instalments and what other potential component of the deferred payment?
(A) Shipping costs
(B) Insurance premiums
(C) Interest, if provided for
(D) Customs duties

Ans :

(C) Interest, if provided for.
When payment is deferred, the seller is essentially providing credit to the buyer, for which interest is typically charged. A comprehensive DPG arrangement guarantees not only the repayment of the principal instalments but also the payment of any associated interest that has been agreed upon in the contract and included in the payment schedule.

Oct/Nov 2010

44. 'Innovate Inc.' agrees to buy equipment from 'Precision Parts Co.' on a 3-year deferred payment plan. The bank issues a DPG. One year into the plan, Innovate Inc. faces a severe business downturn and misses an instalment. What is the most direct recourse for Precision Parts Co.?
(A) File a lawsuit against Innovate Inc. for breach of contract.
(B) Seize the equipment from Innovate Inc.'s factory.
(C) Renegotiate the payment terms with Innovate Inc.
(D) Invoke the Deferred Payment Guarantee with the issuing bank.

Ans :

(D) Invoke the Deferred Payment Guarantee with the issuing bank.
The very purpose of the DPG is to provide a remedy in this exact situation. Instead of engaging in a potentially long and costly legal battle or renegotiation, Precision Parts Co. can directly approach the guaranteeing bank and invoke the guarantee. The bank is then obligated to make the payment for the missed instalment.

May/June 2005

45. Which of the following statements is FALSE regarding a Deferred Payment Guarantee?
(A) The guarantee is primarily to ensure the quality and timely delivery of goods.
(B) The guarantee is mostly based on a primary contract between the buyer and the seller.
(C) The bank's liability comes into existence only on the non-payment of an instalment.
(D) The bank gives an unconditional and irrevocable assurance for payment.

Ans :

(A) The guarantee is primarily to ensure the quality and timely delivery of goods.
A DPG is a financial guarantee, not a performance guarantee. Its purpose is to ensure the payment of instalments, not the delivery or quality of the goods. The bank does not take responsibility for the physical aspects of the transaction. The other statements correctly describe features of a DPG and the conditions for its invocation.

Oct/Nov 2022

46. Identify the correct statement. In a DPG, the bank's liability to pay is triggered by:
(A) A formal court order that officially confirms the buyer's legal insolvency or bankruptcy.
(B) The buyer's failure to pay and the seller's subsequent invocation of the guarantee.
(C) The mutual written agreement of both the buyer and seller instructing the bank to pay.
(D) The natural expiry of the entire deferred payment period as listed in the contract.

Ans :

(B) The buyer's failure to pay and the seller's subsequent invocation of the guarantee.
The bank's obligation under a DPG is not automatic. It is a contingent liability that crystallizes into an actual liability upon the occurrence of two events: first, the buyer's default on a scheduled payment, and second, the seller's formal demand for payment from the bank, known as invoking the guarantee.

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May/June 2018

47. Consider the following sequence of events in a DPG-backed transaction:
1. Buyer and Seller agree on deferred payment terms.
2. Buyer's bank issues a DPG in favor of the Seller.
3. Seller ships the goods.
4. Buyer defaults on an instalment.
5. Seller invokes the guarantee.

What is the immediate next step for the bank after event 5?
(A) Verify the quality of the goods received by the buyer.
(B) Initiate legal proceedings against the buyer.
(C) Ask the seller to provide proof of the buyer's default.
(D) Make payment to the seller without protest.

Ans :

(D) Make payment to the seller without protest.
Upon a valid invocation of the guarantee (event 5), the bank's unconditional and irrevocable undertaking requires it to make the payment to the seller/beneficiary "without any demur or protest." The bank's primary obligation is to pay first and then seek recovery from its customer, the buyer. Any other action would contravene the guarantee's terms.

Oct/Nov 2016

48. "In case of capital goods the amount involved is substantial, so short-term credit is not of help to the buyer, unless he gets a term loan. Also, in case of import of capital goods, the requirement of substantial amount of foreign exchange may place the buyer at a great disadvantage. The practice of deferred payment emerged as a solution."
According to this paragraph, deferred payment arrangements emerged as a solution to which two specific problems faced by a buyer of capital goods?
(A) The lack of suitable short-term credit and the burden of a large foreign exchange payment.
(B) The significant logistical challenges involved and the associated high costs of insurance.
(C) The difficulty in finding reliable overseas suppliers and the risk of political instability.
(D) The imposition of high tariffs on capital goods and navigating complex customs procedures.

Ans :

(A) The lack of suitable short-term credit and the burden of a large foreign exchange payment.
The text explicitly identifies two key issues that the practice of deferred payment addresses for a buyer. First, it states that "short-term credit is not of help." Second, it points out that the "requirement of substantial amount of foreign exchange may place the buyer at a great disadvantage." Deferred payment is presented as the solution to these problems.

May/June 2014

49. A bank issues a DPG for an import of machinery. The DPG incorporates the payment schedule verbatim. The schedule lists 10 semi-annual payments of $100,000 each. After 8 successful payments, the importer defaults on the 9th payment. The exporter invokes the guarantee. For what amount is the bank immediately liable?
(A) $200,000, representing the 9th and 10th instalments.
(B) $1,000,000, representing the full original value.
(C) $100,000, representing the 9th instalment.
(D) $0, as most of the payment has been completed.

Ans :

(C) $100,000, representing the 9th instalment.
The bank's liability under a DPG crystallizes on an instalment-by-instalment basis. When the importer defaults on a specific instalment and the exporter invokes the guarantee for that default, the bank is liable for the amount of that particular missed instalment. It is not automatically liable for all future instalments unless the guarantee has an acceleration clause.

Oct/Nov 2007

50. Which of the following best describes the 'consideration' for the bank's guarantee in a DPG arrangement?
(A) The seller's action of supplying goods and agreeing to postpone the payment.
(B) The specific commission fee that is paid by the importer to the issuing bank.
(C) The inherently high monetary value of the capital goods involved in the transaction.
(D) The implicit promise from the exporter to deliver goods of a certain high quality.

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Ans :

(A) The seller's action of supplying goods and agreeing to postpone the payment.
The text identifies the consideration for the guarantee as the combination of two actions by the seller: the supply of goods to the buyer and the seller's agreement to postpone the payment of the price. This act of extending credit by the seller is the fundamental basis upon which the bank's guarantee is built.

May/June 2025

51. Which of the following statements regarding the autonomy of a DPG is most accurate?
(A) The guarantee is autonomous, but the bank must verify the underlying transaction before paying.
(B) The guarantee's autonomy can be voided if the buyer proves the goods are defective.
(C) The guarantee is not autonomous and is fully dependent on the performance of the main contract.
(D) The guarantee is autonomous, meaning the bank's obligation to pay is separate from the buyer-seller contract.

Ans :

(D) The guarantee is autonomous, meaning the bank's obligation to pay is separate from the buyer-seller contract.
The principle of autonomy is central to bank guarantees. It means the DPG stands on its own as a distinct contract between the bank and the beneficiary (exporter). The bank's duty to pay is determined by the terms of the guarantee itself, not by the performance or non-performance of the separate sales contract.

Oct/Nov 2019

52. A DPG is given by a bank to a seller/exporter on whose behalf?
(A) On behalf of the international shipping company handling the freight.
(B) On behalf of the buyer/importer, who is the applicant and bank's customer.
(C) On behalf of the seller/exporter, to guarantee their own performance.
(D) On behalf of the central bank of the importer's home country.

Ans :

(B) On behalf of the buyer/importer, who is the applicant and bank's customer.
The applicant for the DPG is the buyer/importer, who is a customer of the issuing bank. The bank issues the guarantee on its customer's behalf to provide the necessary security to the seller/exporter. This arrangement facilitates the transaction by bridging the trust and risk gap between the trading partners over the extended payment period.

May/June 2009

53. Consider the following two statements:
Statement I: A Deferred Payment Guarantee is a form of term loan provided by the bank to the importer.
Statement II: A Deferred Payment Guarantee facilitates the financing of fixed assets by securing instalment payments.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is incorrect, but Statement II is correct.
(D) Statement I is correct, but Statement II is incorrect.

Ans :

(C) Statement I is incorrect, but Statement II is correct.
Statement I is incorrect; a DPG is a guarantee of payment (a contingent liability), not a direct loan of funds. Statement II is correct, as the text explicitly mentions that a DPG is another method of financing fixed assets. It achieves this by making the deferred payment terms acceptable to the seller.

NODIA

Oct/Nov 2011

54. If a seller/exporter discounts the usance bills guaranteed under a DPG, who ultimately bears the credit risk of the importer?
(A) The seller/exporter's bank that discounted the bills.
(B) The seller/exporter.
(C) The discounting is without recourse, so no one bears the risk.
(D) The buyer/importer's bank that issued the DPG.

Ans :

(D) The buyer/importer's bank that issued the DPG.
When the usance bills are guaranteed by the importer's bank, the credit risk is effectively

payment is called the 'Drawee', and the person entitled to receive the payment is the 'Payee'.

Oct/Nov 2005

9. In a typical trade transaction involving a bill of exchange, what is the relationship between the drawer and the drawee?
(A) The drawer is the debtor/buyer, and the drawee is the creditor/seller.
(B) Both the drawer and the drawee are creditors.
(C) The drawer is the creditor/seller, and the drawee is the debtor/buyer.
(D) Both the drawer and the drawee are debtors.

Ans :

(C) The drawer is the creditor/seller, and the drawee is the debtor/buyer.
In a standard commercial transaction, the seller of goods (creditor) draws a bill of exchange on the buyer (debtor). The drawer (seller) is ordering the drawee (buyer) to pay the amount of the bill, which represents the price of the goods supplied. This establishes a clear creditor-debtor relationship between the drawer and the drawee of the bill.

May/June 2017

10. According to Section 8 of the NI Act, 1881, a 'Holder' of a bill of exchange is a person who is:
(A) entitled in his own name to possess the bill and recover the amount.
(B) in physical possession of the bill for safekeeping only, without right to the proceeds.
(C) the original drawee of the bill before acceptance has been signified on the instrument.
(D) an agent who collects payment on behalf of the payee, without personal title to the bill.

Ans :

(A) entitled in his own name to possess the bill and recover the amount.
Section 8 defines a 'Holder' not merely by physical possession but by legal right. A holder is the person who is legally entitled to possess the instrument in their own name and has the corresponding right to receive or recover the amount due on it from the parties liable. This legal entitlement is crucial for enforcing rights under the instrument.

Oct/Nov 2021

11. A supplier, Mr. Sharma, receives a bill of exchange from a buyer. He needs immediate funds and sells the bill to Mr. Gupta for a consideration less than its face value. Mr. Gupta is now in possession of the bill. As per the NI Act, what is Mr. Gupta's status?
(A) He is the drawee.
(B) He is merely an agent of Mr. Sharma.
(C) He is the acceptor of the bill.
(D) He is a 'Holder in Due Course'.

Ans :

(D) He is a 'Holder in Due Course'.
According to Section 9 of the NI Act, a 'Holder in Due Course' is any person who, for consideration, becomes the possessor of a bill of exchange. Since Mr. Gupta acquired the bill from Mr. Sharma for a valid consideration (the discounted price), he becomes the holder in due course, gaining superior rights over the instrument.

May/June 2009

12. Which of the following statements about 'Payment in Due Course' under Section 10 of the NI Act is incorrect?
(A) It must be made in accordance with the apparent tenor of the bill.
(B) It can be made with negligence as long as the amount is correct.
(C) It must be made in good faith.
(D) It is a payment made to the holder or holder in due course.

Ans :

(B) It can be made with negligence as long as the amount is correct.
Section 10 of the NI Act explicitly requires that a 'Payment in Due Course' be made not only in good faith but also "without negligence." A paying banker or drawee who makes a payment under circumstances that would arouse suspicion in a reasonable person may be deemed negligent, and such a payment would not discharge them from liability.

Oct/Nov 2019

13. What is the term for the process of transferring a bill to another person for consideration, entitling them to claim the amount of the bill, as defined in Section 14 of the NI Act?
(A) Assignment
(B) Hypothecation

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the bank from its primary obligation to pay the exporter if the guarantee is invoked.

May/June 2020

59. What is the role of the main contract between the buyer and seller in the context of a DPG?

(A) It is completely irrelevant to the DPG and the bank's obligations.

(B) The bank is legally required to enforce all the specific terms of the main contract.

(C) It establishes the debt and payment schedule that the DPG is issued to guarantee.

(D) The DPG is a superior document that replaces the main contract entirely.

Ans :

(C) It establishes the debt and payment schedule that the DPG is issued to guarantee.

While the DPG is an autonomous undertaking, it does not exist in a vacuum. It is issued to support a specific underlying transaction. The main contract between the buyer and seller is crucial as it creates the actual debt, defines the value of the goods, and sets out the payment schedule that the bank agrees to guarantee.

Oct/Nov 2015

60. A bank issues a DPG for $1 Million payable in 10 equal yearly instalments. After the 2nd instalment is paid, the government in the importer's country bans remittances for such machinery. The importer fails to pay the 3rd instalment. What should the bank do upon invocation?

(A) Pay the exporter, as required by the unconditional and irrevocable nature of the guarantee.

(B) Refuse to pay the exporter, citing the government ban as a force majeure event.

(C) Advise the exporter to file a lawsuit directly against the importer's government.

(D) Pay the guaranteed amount into a blocked account held in the local currency.

Ans :

(A) Pay the exporter, as required by the unconditional and irrevocable nature of the guarantee.

The essence of an unconditional and irrevocable guarantee is that it must be honored despite such supervening events. The bank's primary obligation is to the beneficiary. The risk of such government actions is one of the risks the bank assumes when issuing the guarantee. The bank must pay the exporter and then deal with its own country's regulations.

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CHAPTER 34

Laws Relating to Bill Finance

Oct/Nov 2014

1. According to the principles of bill finance, which of the following is considered a primary advantage over facilities like cash credit and overdraft?

(A) The loan amount can be increased at any time without documentation.

(B) There is a definite date of repayment, ensuring a clear timeline for fund recovery.

(C) It requires only a single signature, simplifying the execution process.

(D) The underlying transactions are often complex and require extensive verification.

Ans :

(B) There is a definite date of repayment, ensuring a clear timeline for fund recovery.

Bill finance offers distinct advantages, a key one being the presence of a definite repayment date. This provides certainty to the banker regarding the timing of fund inflow. Unlike overdrafts which are ongoing, a bill has a specific maturity date, which also helps in managing the bank's liquidity and asset-liability profile more effectively.

May/June 2018

2. Why is a bill of exchange on a usance basis considered to have enhanced security for a financing bank?

(A) It will carry more than one signature, increasing the number of parties liable.

(B) It is always backed by government guarantees against non-payment.

(C) It is mandatorily insured against default by an approved credit insurer.

(D) It can only be drawn for transactions involving specified immovable property.

Ans :

(A) It will carry more than one signature, increasing the number of parties liable.

A usance bill, once accepted by the drawee, carries the signatures of both the drawer and the acceptor. If it is further endorsed, it acquires more signatures. This multiplicity of liable parties enhances the security for the financing bank, as it can proceed against any of the signatories in the event of a default on the bill.

Oct/Nov 2023

3. Which feature of bill finance allows a bank to improve its own liquidity position by using the financed bill as an asset?

(A) The ability to convert the bill into equity shares.

(B) The interest rate on the bill is always variable.

(C) The bill can be rediscounted.

(D) The bill is automatically renewed upon maturity.

Ans :

(C) The bill can be rediscounted.

A bill of exchange held by a bank is an easily transferable asset. If the bank requires funds before the bill's maturity date, it can sell or 'rediscount' the bill with another financial institution, such as the central bank or a larger commercial bank. This process allows the bank to convert the bill into cash, thereby improving its liquidity.

May/June 2007

4. Which of the following statements correctly describes a characteristic of bills discounted or purchased by banks?

(A) All bills financed by banks must be accompanied by documents of title to goods.

(B) Clean bills are those drawn exclusively on government departments for supply contracts.

(C) Documentary bills are those that do not have any associated documents attached.

(D) Bills financed by banks can be categorized as clean bills, documentary bills, or bills drawn under credit.

Ans :

(D) Bills financed by banks can be categorized as clean bills, documentary bills, or bills drawn under credit.

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Banks categorize the bills they discount or purchase based on the nature of the underlying trade transaction. The main classes are clean bills, which lack supporting documents; documentary bills, which are accompanied by documents of title to goods; and bills drawn under a letter of credit, which provide an additional layer of security from a bank.

Oct/Nov 2020

5. What is the defining feature of a 'Clean Bill' in the context of bill finance?

(A) It is a bill that has been verified and stamped by a government authority.
(B) It is a bill drawn for a transaction that has already been fully paid.
(C) It does not have any associated document of title to goods attached to it.
(D) It is a bill that can only be paid through electronic transfer.

Ans :

(C) It does not have any associated document of title to goods attached to it.
A clean bill is a bill of exchange that is not accompanied by any documents, such as a bill of lading or railway receipt, which evidence title to goods. It is a standalone instrument that simply establishes the drawee's obligation to pay a specified amount on a certain date, often arising from a prior debt or claim.

May/June 2013

6. The rights and liabilities of parties to a bill of exchange are primarily governed by which legislative act?

(A) The Indian Contract Act, 1872
(B) The Negotiable Instruments Act, 1881
(C) The Sale of Goods Act, 1930
(D) The Banking Regulation Act, 1949

Ans :

(B) The Negotiable Instruments Act, 1881
The legal framework governing bills of exchange, including the definitions of parties, their rights, liabilities, and the processes of negotiation and dishonour, is laid out in the Negotiable Instruments Act, 1881. This act provides the foundational rules for all negotiable instruments like promissory notes, bills of exchange, and cheques in India, ensuring their smooth functioning in commerce.

Oct/Nov 2011

7. Based on the definition from Sec. 5 of NI Act, 1881 ('instruments in writing containing an unconditional order signed by maker, directing a certain person to pay certain sum of money only, to or to the order of a certain person or to the bearer of the instrument'), which of the following is NOT an essential requisite of a valid bill of exchange?

(A) It must be in writing and signed by the maker.
(B) It must direct a certain person to pay a certain sum of money.
(C) The payment must be to a specific person, their order, or the bearer.
(D) It must contain an order to pay that is conditional upon a future event.

Ans :

(D) It must contain an order to pay that is conditional upon a future event.
The definition explicitly states that a bill of exchange must contain an "unconditional order." An instrument that makes payment contingent upon the happening of a specific event does not qualify as a bill of exchange. The unconditional nature of the payment order is a fundamental characteristic that ensures the instrument's certainty and negotiability in commercial transactions.

May/June 2025

8. As per Section 7 of the NI Act, 1881, which of the following pairs correctly identifies the parties to a bill of exchange?

(A) Maker - Drawer; Person directed to pay - Drawee
(B) Maker - Drawee; Person directed to pay - Drawer
(C) Person entitled to receive payment - Drawee; Maker - Payee
(D) Person directed to pay - Payee; Person entitled to receive payment - Drawer

Ans :

(A) Maker - Drawer; Person directed to pay - Drawee
Section 7 of the Negotiable Instruments Act clearly defines the primary parties to a bill of exchange. The person who creates or 'makes' the bill and gives the order to pay is called the 'Drawer'. The person who is directed by the drawer to make the

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transferred to that bank. Even if the bills are discounted, the ultimate guarantor remains the issuing bank. If the importer defaults, the bank that discounted the bills will seek payment from the guaranteeing bank, not the exporter (if discounted without recourse).

May/June 2010

55. What is the key difference between a DPG and a simple performance guarantee?

(A) A DPG guarantees monetary payment, while a performance guarantee secures non-financial contractual obligations.

(B) A DPG is issued by the buyer's bank, whereas a performance guarantee is typically issued by the seller's bank.

(C) A DPG is mainly used for domestic trade, whereas a performance guarantee is exclusively for international trade.

(D) There is no functional difference; they are essentially the same type of financial instrument.

Ans :

(A) A DPG guarantees monetary payment, while a performance guarantee secures non-financial contractual obligations.

A DPG is a financial guarantee, specifically securing a series of payments over time. In contrast, a performance guarantee secures the beneficiary against loss resulting from the applicant's failure to fulfill a non-financial, contractual obligation, such as completing construction or supplying goods as per specifications. Their purposes are fundamentally different.

Oct/Nov 2024

56. The text states "DPGs are usually insisted upon, when capital goods are imported". What is the underlying reason for this?

(A) Capital goods have a statistically higher likelihood of being defective upon arrival.

(B) The high value and long credit period create significant non-payment risk for the exporter.

(C) Import duties are typically much higher for capital goods, thus requiring extra financial security.

(D) Exporters who specialize in capital goods are generally considered less trustworthy than other exporters.

Ans :

(B) The high value and long credit period create significant non-payment risk for the exporter.

Transactions involving capital goods are characterized by large sums of money and extended payment periods (e.g., 1-7 years). This long exposure creates a substantial credit risk for the exporter. A DPG is insisted upon to mitigate this specific risk by substituting the bank's creditworthiness for the buyer's over the long term.

May/June 2017

57. Which of the following is NOT a party to a standard Deferred Payment Guarantee?

(A) The buyer/importer (Applicant)

(B) The seller/exporter (Beneficiary)

(C) The seller/exporter's bank (Advising Bank).

(D) The buyer/importer's bank (Guarantor)

Ans :

(C) The seller/exporter's bank (Advising Bank).

The three essential parties to a DPG are the applicant (importer), the beneficiary (exporter), and the guarantor (importer's bank). While the exporter's bank may be involved in receiving or advising the guarantee, it is not a primary party to the guarantee contract itself in the way the other three are.

Oct/Nov 2005

58. If a bank issues a DPG and the importer later goes bankrupt, what is the bank's obligation?

(A) The bank must honor the guarantee and pay the exporter upon a valid invocation.

(B) The guarantee automatically becomes void upon the formal declaration of the importer's bankruptcy.

(C) The bank's payment obligation is legally reduced in proportion to the importer's remaining assets.

(D) The bank must wait for the official bankruptcy proceedings to be fully concluded before paying.

Ans :

(A) The bank must honor the guarantee and pay the exporter upon a valid invocation.

The risk of the importer's bankruptcy is precisely what the DPG is designed to protect the exporter against. The bank's undertaking is independent of the importer's financial status. Therefore, the importer's bankruptcy does not discharge

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(C) Negotiation
(D) Novation

Ans :

(C) Negotiation
Section 14 of the NI Act defines 'Negotiation' as the act of transferring a negotiable instrument, such as a bill of exchange, from one person to another in a manner that constitutes the transferee as the holder of the instrument. This transfer, done for consideration, gives the new holder the right to sue on the instrument in their own name.

May/June 2015

14. As per Section 15 of the NI Act, what action constitutes an 'Endorsement' of a bill of exchange?
(A) The drawee writing 'accepted' on the bill.
(B) The drawer cancelling the bill before it is presented.
(C) A notary public certifying the dishonour of the bill.
(D) The holder signing the bill for the purpose of transferring it.

Ans :

(D) The holder signing the bill for the purpose of transferring it.
Section 15 of the NI Act specifies that when the holder of a bill of exchange signs it, typically on the back, for the purpose of negotiation (transferring it to another person), this act of signing is called an 'Endorsement'. The signature itself serves as the legal mechanism for transferring the rights embodied in the instrument.

Oct/Nov 2008

15. According to Section 30 of the NI Act, what is the primary liability of the drawer of a bill of exchange?
(A) To compensate the holder if the bill is dishonoured by the drawee or acceptor.
(B) To pay the amount of the bill at maturity under all circumstances.
(C) To ensure the drawee has sufficient funds, but with no personal liability.
(D) To collect the payment from the drawee on behalf of the holder.

Ans :

(A) To compensate the holder if the bill is dishonoured by the drawee or acceptor.
The drawer's liability is secondary and conditional. As per Section 30, the drawer is bound to compensate the holder for the loss incurred only in the case of dishonour by non-acceptance or non-payment by the drawee/ acceptor. This liability is contingent upon the holder giving due notice of such dishonour to the drawer as required by the Act.

May/June 2022

16. What is the liability of an acceptor of a bill of exchange as stipulated in Section 32 of the NI Act?
(A) To pay the amount only if the drawer fails to pay.
(B) To pay the amount at maturity according to the apparent tenor of the acceptance.
(C) To act as a guarantor for the drawer.
(D) To pay a portion of the bill amount, with the rest payable by the drawer.

Ans :

(B) To pay the amount at maturity according to the apparent tenor of the acceptance.
As per Section 32 of the NI Act, the acceptor's liability is primary and absolute. By accepting the bill, the drawee undertakes to pay the amount of the bill at its maturity. This payment must be made according to the terms specified in the acceptance, making the acceptor the principal debtor on the instrument.

Oct/Nov 2012

17. Regarding the liability of an endorser under Section 35 of the NI Act, which statement is correct?
(A) An endorser is not liable to any subsequent holder under any circumstances.
(B) An endorser is bound to every subsequent holder in case of dishonour, unless a contract exists to the contrary.
(C) An endorser's liability is absolute and is not dependent on the dishonour of the bill by the acceptor.
(D) An endorser is only liable to the person to whom they directly endorsed the bill, not to any other parties in the chain.

Ans :

(B) An endorser is bound to every subsequent holder in case of dishonour, unless a contract exists to the contrary.

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Section 35 provides that, in the absence of a specific contract excluding liability (e.g., by writing 'sans recourse'), every endorser of a negotiable instrument is liable to all subsequent holders in case of dishonour by the drawee or acceptor. This creates a chain of liability, enhancing the instrument's credit and negotiability for subsequent holders.

May/June 2005

18. If a bill of exchange does not specify any rate of interest, at what rate should interest be calculated on the amount due, according to Section 80 of the NI Act, 1881?
(A) At 18% per annum.
(B) At the prevailing bank rate.
(C) At 12% per annum.
(D) At the rate decided by the holder.

Ans :

(A) At 18% per annum.
Section 80 of the NI Act provides a default provision for interest calculation when an instrument is silent on the rate. It stipulates that if no interest rate is specified in the instrument, interest on the amount due shall be calculated at the rate of eighteen per cent per annum (18% p.a.) from the date it ought to have been paid.

Oct/Nov 2024

19. Statement I: A bill drawn in Mumbai and made payable in London upon a person resident in Delhi is an inland bill.
Statement II: A bill drawn in New York upon a person resident in Chennai and payable in Chennai is a foreign bill.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, and Statement II is incorrect.
(D) Statement I is incorrect, and Statement II is correct.

Ans :

(A) Both Statement I and Statement II are correct.
As per Section 11 of the NI Act, a bill is an inland instrument if it is drawn in India upon a resident of India, even if payable abroad (Statement I is correct). As per Section 12, a bill drawn outside India is a foreign bill, even if it is made payable in or drawn upon a person resident in India (Statement II is correct).

May/June 2011

20. Based on the definition from Sec. 11 of NI Act ('A promissory note, bill of exchange or cheque drawn or made in India and made payable in or drawn upon any person resident in India shall be deemed to be an inland instrument.'), which of the following scenarios describes an inland instrument?
(A) A bill drawn in London on a resident of Mumbai.
(B) A bill drawn in Kolkata on a resident of New York, payable in New York.
(C) A bill drawn in Singapore and made payable in Singapore.
(D) A bill drawn in Delhi and made payable in Delhi.

Ans :

(D) A bill drawn in Delhi and made payable in Delhi.
The definition provides two conditions for an instrument to be an inland instrument. The scenario described satisfies the first condition: "drawn or made in India and made payable in... India". The other options describe foreign bills, as they are either drawn outside India or are drawn on a non-resident and payable outside India.

Oct/Nov 2017

21. A bill of exchange that specifies "Pay on demand" or does not specify any time for payment is known as a:
(A) Usance Bill
(B) Term Bill
(C) Demand Bill
(D) Accommodation Bill

Ans :

(C) Demand Bill
As defined in Section 19 of the NI Act, a 'Demand Bill' is an instrument where payment is due immediately upon presentation or 'on demand'. Such bills, also known as 'sight bills', do not have a specified maturity date or tenor. The payee is entitled to receive the value of the bill upon its presentation to the drawee.

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May/June 2008

22. What is the primary difference between a 'Demand Bill' and a 'Usance Bill'?
(A) A demand bill is for foreign trade, while a usance bill is for domestic trade.

(B) A demand bill is payable on presentation, while a usance bill is payable after a specified period.
(C) A demand bill must be documentary, while a usance bill is always clean.
(D) A demand bill is drawn by the buyer, while a usance bill is drawn by the seller.

Ans :

(B) A demand bill is payable on presentation, while a usance bill is payable after a specified period.
The key distinction lies in the timing of payment. A demand bill (or sight bill) is payable immediately upon being presented to the drawee. In contrast, a usance bill (or time bill) is payable at a future date, either a certain period after the date of the bill or after the date of its presentation for acceptance.

Oct/Nov 2007

23. Assertion (A): A Usance Bill is also referred to as a 'Bill payable after sight'.
Reason (R): The payment on a usance bill becomes due only after a specified time period, which often commences from the date the bill is presented to the drawee for acceptance ('sight').
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
A usance bill's maturity is set for a future date. When the tenor is "after sight," it means the countdown to the due date begins when the drawee sees and accepts the bill. Therefore, the term 'Bill payable after sight' accurately describes this type of usance bill, and the reason correctly explains the underlying mechanism for determining its maturity.

May/June 2024

24. Which of the following statements about 'Documentary Bills' is incorrect?
(A) They are also known as 'Clean Bills' because the documents are clean.
(B) They are bills of exchange accompanied by documents of title to goods.
(C) A lorry receipt or railway receipt can be a document of title accompanying the bill.
(D) They are drawn to claim the price of goods supplied.

Ans :

(A) They are also known as 'Clean Bills' because the documents are clean.
A documentary bill is the opposite of a clean bill. A clean bill is one that is not supported by any documents of title to goods. A documentary bill, by its very definition, must be accompanied by such documents (e.g., bill of lading, railway receipt), which provide security to the parties involved in the transaction.

Oct/Nov 2010

25. Based on the instruction 'Bills drawn with an instruction to deliver documents against payment (D.P. Bills): ... The seller instructs the banker to deliver the bill and documents of title to goods only when the buyer pays the price of goods,' when does the buyer get possession of the documents of title to goods under a D.P. Bill arrangement?
(A) Immediately upon accepting the bill of exchange.
(B) After a credit period of 30 days from the date of the bill.
(C) Only after making the full payment for the goods as per the bill.
(D) As soon as the goods arrive at the destination port.

Ans :

(C) Only after making the full payment for the goods as per the bill.
The term 'Delivery against Payment' (D.P.) explicitly defines the condition for releasing the documents. The collecting bank is under strict instruction not to hand over the documents of title (which are needed to take delivery of the goods) to the buyer (drawee) until the buyer has paid the full amount of the bill of exchange.

May/June 2016

26. What is the key difference between a 'D.P. Bill' (Delivery against Payment) and a 'D.A. Bill' (Delivery against Acceptance)?
(A) In D.P. bills, documents are released on payment; in D.A. bills, documents are released on acceptance of the bill.

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(B) D.P. bills are used for inland trade, while D.A. bills are for foreign trade.
(C) D.P. bills are always demand bills, while D.A. bills are always usance bills.
(D) In D.P. bills, documents are sent directly to the buyer; in D.A. bills, they are sent through a bank.

Ans :

(A) In D.P. bills, documents are released on payment; in D.A. bills, documents are released on acceptance of the bill.
The core difference is the event that triggers the release of documents to the buyer. For a D.P. bill (typically a sight bill), the buyer must pay to get the documents. For a D.A. bill (a usance bill), the buyer gets the documents by simply giving a legal commitment to pay at a future date by 'accepting' the bill.

Oct/Nov 2022

27. Bills drawn on a government department for the price of goods supplied, which do not squarely fall under the NI Act but to which its principles are applied, are known as:
(A) Treasury Bills
(B) Accommodation Bills
(C) Co-accepted Bills
(D) Supply Bills

Ans :

(D) Supply Bills
'Supply bills' are a specific type of bill drawn on government departments or public sector undertakings for goods or services rendered. While they may not meet all the technical requirements of a bill of exchange under the NI Act (e.g., drawn on a specific person), banks finance them by applying the general principles of bill finance.

May/June 2021

28. Which of the following statements correctly describes 'Bill Purchase' as a type of bank finance?
(A) It is a facility exclusively for usance bills with a fixed maturity date.
(B) It is a facility primarily for demand bills where the bank immediately pays the face value.
(C) The bank pays the face value of the bill less a discount to the holder.
(D) The bank acts only as a collection agent and does not become the holder of the bill.

Ans :

(B) It is a facility primarily for demand bills where the bank immediately pays the face value. Bill purchase is the facility where a bank negotiates bills payable on demand. The bank buys the bill from the holder and immediately credits the face value of the bill to the customer's account. In this process, the bank becomes the holder in due course of the instrument and assumes the right to collect the proceeds.

Oct/Nov 2016

29. A company, 'X', draws a usance bill on 'Y' payable three months after date. 'Y' accepts the bill. 'X' needs immediate funds and approaches its bank. The bank pays 'X' the face value of the bill minus a certain charge for the three-month period. Which type of bill finance has the bank provided?
(A) Bill Purchase
(B) Advance against Bills for Collection
(C) Bill Discounting
(D) Overdraft against Bills

Ans :

(C) Bill Discounting
This scenario describes bill discounting. This facility is extended for usance bills, which have a future maturity date. The bank buys the bill before its due date, paying the holder the face value less an amount called 'discount,' which represents the interest for the period until maturity. The bank then becomes the holder in due course.

May/June 2014

30. Under the 'Advance against Bills for Collection' facility, how does the bank's role differ from bill purchase or discounting?
(A) The bank becomes the absolute owner of the goods.
(B) The bank pays the full face value of the bill upfront.
(C) The bank does not take possession of the bill at all.
(D) The bank advances a partial amount against the bill, keeping a margin, and acts as a collection agent.

Ans :

(D) The bank advances a partial amount against the bill, keeping a margin, and acts as a collection agent.

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In this facility, the bank does not purchase or discount the bill outright. Instead, it grants a loan or advance to the customer against the security of the bills lodged for collection. A margin is retained, and the net amount is given to the customer. The bank's primary role remains that of a collecting agent for the bill.

Oct/Nov 2025

31. In which of the following types of bill finance does the banker become a 'holder in due course' of the bill?

(A) All of the above result in the banker becoming a holder in due course.
(B) Bill Purchase
(C) Bill Discounting
(D) Advance against Bills for Collection

Ans :

(A) All of the above result in the banker becoming a holder in due course.
In all three primary forms of bill finance—purchase, discounting, and advance against collection—the bank takes possession of the bill for consideration (the funds provided). This act makes the bank a 'holder in due course' as per the NI Act, granting it the legal right to collect the amount and sue the parties to the bill if necessary.

May/June 2019

32. When a bank discounts a bill of exchange, it becomes the 'holder in due course'. What right does this status confer upon the bank?

(A) The right to change the maturity date of the bill.
(B) The right to receive the amount from the acceptor on the due date.
(C) The right to sell the goods covered by the bill immediately.
(D) The right to cancel the original sale transaction between the drawer and drawee.

Ans :

(B) The right to receive the amount from the acceptor on the due date.
By becoming the holder in due course, the bank steps into the shoes of the original payee. This legal status entitles the bank to present the bill to the acceptor on the maturity date and demand payment. If the acceptor defaults, the bank has the right to recover the amount from any of the prior parties on the bill.

Oct/Nov 2018

33. In the context of bill discounting, what is the legal relationship between the bank and the instrument?

(A) The bank is merely an agent of the drawer.
(B) The bank becomes a lawful holder and payee of the bill.
(C) The bank is a trustee holding the bill on behalf of the drawee.
(D) The bank has no legal relationship with the bill itself, only with the customer.

Ans :

(B) The bank becomes a lawful holder and payee of the bill.
When a bank discounts a bill, it purchases the instrument through negotiation. This transaction legally transforms the bank into the lawful holder of the bill. As the holder, the bank effectively becomes the 'payee' and is entitled to receive the payment of the amount specified in the bill from the party primarily liable, i.e., the acceptor.

May/June 2012

34. A bank discounts a bill for its customer (the drawer). On the due date, the drawee dishonours the bill. The customer argues that the bank should first sue the drawee for recovery before approaching the customer. Based on legal precedents, what is the correct legal position?

(A) The bank can recover the amount directly from its customer (the drawer), who is liable to the bank as a holder in due course.
(B) The customer is correct; the bank must exhaust remedies against the drawee first.
(C) The bank must sue both the customer and the drawee simultaneously.
(D) The bank has no recourse and must bear the loss.

Ans :

(A) The bank can recover the amount directly from its customer (the drawer), who is liable to the bank as a holder in due course.
This situation reflects the principle upheld in cases like Shambumal Gangaram vs State Bank of Mysore. The drawer, by drawing and endorsing the bill to the bank, is liable to the bank (as a holder in due course) in case of dishonour. The bank is not obligated to sue the drawee first and can legally recover the funds from its customer.

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1. When a bank discounts a bill, it becomes a 'holder in due course'.
2. A bill drawn in Kolkata on a person in London and payable in London is an Inland Bill.
3. In a D.A. bill, the buyer gets the documents of title only after making payment.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(A) 1 only
Statement 1 is correct; a bank discounting a bill for consideration becomes a holder in due course. Statement 2 is incorrect; a bill drawn in India but on a non-resident and payable abroad is a foreign bill. Statement 3 is incorrect; in a D.A. (Delivery against Acceptance) bill, documents are released on acceptance, not payment.

May/June 2017

44. Arrange the following events in a typical transaction involving the discounting of a usance bill in the correct chronological sequence:
1. The bank pays the drawer the face value of the bill less discount.
2. The seller (drawer) draws a bill on the buyer (drawee).
3. The drawee accepts the bill.
4. The bank presents the bill to the acceptor for payment on the due date.

(A) 2, 3, 1, 4
(B) 1, 2, 3, 4
(C) 2, 1, 3, 4
(D) 3, 2, 4, 1

Ans :

(A) 2, 3, 1, 4
The correct sequence begins with the seller drawing the bill (2). The buyer then accepts it, creating a binding obligation (3). The seller then discounts the accepted bill with a bank to get immediate funds (1). Finally, on the maturity date, the bank, as the holder, presents the bill to the acceptor for payment (4).

Oct/Nov 2021

45. Based on the text "In the case of 'Bills Co-acceptance Facility', the banker accepts the bills along with the borrower, undertakes a joint liability along with the borrower, and enters into agreement with the borrower for reimbursement," what is the primary obligation of the borrower in a co-acceptance facility?
(A) To find a third-party guarantor for the bank.
(B) To sell the goods and share the profit with the bank.
(C) To reimburse the bank for the payment it makes on the accepted bill.
(D) To ensure the drawer delivers goods of acceptable quality.

Ans :

(C) To reimburse the bank for the payment it makes on the accepted bill.
The source clearly states that the bank enters into an "agreement with the borrower for reimbursement." This means that after the bank, as a co-acceptor, honours the bill by paying the drawer on the due date, the borrower is contractually obligated to repay that amount, along with any agreed-upon interest and charges, to the bank.

May/June 2009

46. A Panchayat issued a cheque payable to 'self or order' on a Government treasury. A bank discounted this cheque for the Panchayat. Later, the treasury dishonoured the cheque because a Panchayat Inspector countermanded the payment. The Panchayat refused to pay the bank. Based on the Irinjalakuda Bank Ltd. vs Pourthussery Panchayat case, what is the bank's legal recourse?
(A) The bank must accept the loss as the payment was countermanded by a government authority.
(B) The bank can sue the Government treasury for non-payment.
(C) The bank can only recover the amount from the Panchayat Inspector personally.
(D) The bank is a holder in due course and can legally recover the amount from the Panchayat.

Ans :

(D) The bank is a holder in due course and can legally recover the amount from the Panchayat.
The court's ruling in the cited case established that the bank, by discounting the instrument for consideration, became a holder in due course. As a holder in due course, the bank has the right

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or damage, which is the value of the goods, not just the amount it advanced.

Oct/Nov 2006

39. What is a 'Drawee Bills Acceptance Facility'?

(A) A facility where the bank accepts bills drawn on itself by the borrower.

(B) A facility for the bank to draw bills on its borrowers for loan repayment.

(C) A facility where the bank guarantees payment for all bills drawn by its borrower.

(D) A facility where the bank agrees to pay the drawer for bills drawn on the borrower, and recovers from the borrower later.

Ans :

(D) A facility where the bank agrees to pay the drawer for bills drawn on the borrower, and recovers from the borrower later.

In this arrangement, the bank provides credit to its borrower (the drawee) by accepting and paying bills drawn on the borrower by their suppliers (the drawers). The bank pays the supplier on presentation and then recovers the amount plus interest from its borrower on the respective due dates. It is an alternative to cash credit or overdraft.

May/June 2010

40. The 'Drawee Bills Acceptance Facility' is typically extended to which category of borrowers?

(A) Borrowers who have already been granted working capital facilities like cash credit or overdraft.

(B) New customers with no credit history.

(C) Customers seeking only short-term, one-time loans.

(D) Individuals for non-business purposes.

Ans :

(A) Borrowers who have already been granted working capital facilities like cash credit or overdraft.

This facility is normally offered as an alternative or a sub-limit within existing working capital arrangements. It is provided to established borrowers who have ongoing needs to finance their purchases from suppliers. The bank leverages the existing credit assessment and relationship to structure this specific form of trade finance for the borrower (the buyer/drawee).

Oct/Nov 2015

41. Which statement accurately describes the 'Bills Co-acceptance Facility'?

(A) The bank acts as a sole acceptor of the bill on behalf of the borrower.

(B) The borrower and the drawer jointly accept the bill.

(C) The banker accepts the bill along with the borrower, undertaking a joint liability.

(D) The bank only provides a guarantee for the borrower's acceptance.

Ans :

(C) The banker accepts the bill along with the borrower, undertaking a joint liability.

In a 'Bills Co-acceptance Facility', the bank adds its own financial strength and creditworthiness to the transaction by becoming a co-acceptor on the bill alongside its borrower. This creates a joint liability, making the bill more secure and acceptable to the supplier (drawer). The bank, in turn, has a reimbursement agreement with its borrower.

May/June 2023

42. In a Drawee Bills Acceptance facility, what is the bank's additional advantage in the event of a bill's dishonour?

(A) The bank can sue the drawer of the bill in addition to the borrower.

(B) The bank can seize the borrower's personal assets without a court order.

(C) The interest rate on the defaulted amount automatically triples.

(D) The bank can report the borrower directly to the central bank for blacklisting.

Ans :

(A) The bank can sue the drawer of the bill in addition to the borrower.

Since the bank pays the drawer and becomes the holder of the bill, it has recourse against its customer (the borrower/drawee) based on their loan agreement. Additionally, as the holder of a dishonoured bill, the bank retains the right under the NI Act to sue the drawer, who is secondarily liable, providing an additional avenue for recovery.

Oct/Nov 2024

43. Consider the following statements regarding bill finance:

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of the drawer and endorsers is secondary, arising only upon the acceptor's default.

May/June 2016

60. Consider the following statements about bill finance:

1. When a bank discounts a usance bill, it pays the face value less discount.
2. In a 'Bill Purchase' transaction, the bank primarily finances demand bills.
3. A bank that advances against bills for collection does not become a holder in due course.

Which of the above statements is/are correct?

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

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Ans :

(A) 1 and 2 only

Statement 1 is correct; bill discounting involves paying the present value of the bill. Statement 2 is also correct; bill purchase is the facility for demand bills where face value is paid. Statement 3 is incorrect; the text clarifies that in all cases of bill finance, including advances against collection, the banker becomes a holder in due course.

to recover the amount from the drawer (the Panchayat) upon dishonour, regardless of the internal reasons for the payment being stopped by another authority.

Oct/Nov 2019

47. Which of the following pairs of NI Act sections and their subject matter is incorrectly matched?
(A) Sec. 5: Definition of 'Bill of Exchange'
(B) Sec. 9: Definition of 'Holder in Due Course'
(C) Sec. 32: Liability of Drawer
(D) Sec. 80: Interest when no rate is specified

Ans :

(C) Sec. 32: Liability of Drawer
Section 32 of the NI Act pertains to the 'Liability of Acceptor/Drawee of Bill,' who is the primary obligor. The 'Liability of Drawer' is covered under Section 30 of the Act. The other pairs are correctly matched: Section 5 defines a bill of exchange, Section 9 defines a holder in due course, and Section 80 specifies the default interest rate.

May/June 2015

48. Consider the following statements:
1. Bill finance offers an easy mode of lending as underlying transactions are identifiable.
2. A 'Holder' under Sec. 8 of the NI Act is any person who is in physical possession of a bill.
3. According to Sec. 35 of the NI Act, an endorser is not liable to subsequent holders.
4. 'Supply bills' drawn on government departments fall squarely within the ambit of the NI Act.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 4 only
(C) 2 and 3 only
(D) All of the above

Ans :

(A) 1 only
Statement 1 is correct. Statement 2 is incorrect; a 'Holder' must also be entitled in his own name to recover the amount. Statement 3 is incorrect; an endorser is liable to subsequent holders unless liability is excluded. Statement 4 is incorrect; the text explicitly states that supply bills "do not squarely fall within the ambit of NI Act."

Oct/Nov 2008

49. A bill drawn in Delhi on a firm in Delhi, but accepted for payment in Singapore, would be classified as:
(A) A purely foreign bill.
(B) An inland bill.
(C) A non-negotiable instrument.
(D) An accommodation bill.

Ans :

(B) An inland bill.
According to Section 11 of the NI Act, an instrument drawn in India upon a person resident in India is deemed to be an inland instrument. The place of payment (Singapore) does not change its fundamental character as an inland instrument, as both the drawer and the drawee are based in India.

May/June 2022

50. In the context of bill finance, the process of 'acceptance' is crucial for which type of bill?
(A) Usance Bills
(B) Demand Bills
(C) Clean Bills
(D) All types of bills

Ans :

(A) Usance Bills
Acceptance is the act by which the drawee signifies their assent to the order of the drawer. This is fundamentally important for usance bills, as it transforms the drawee's conditional liability into an absolute promise to pay on a future date. For demand bills, presentation for payment is the key event, not necessarily prior acceptance.

Oct/Nov 2012

51. What does the 'apparent tenor' of a bill of exchange refer to?
(A) The credit rating of the drawer.
(B) The market value of the goods involved.
(C) The terms and conditions of payment as they appear on the face of the instrument.
(D) The hidden agreement between the drawer and the drawee.

Ans :

(C) The terms and conditions of payment as they appear on the face of the instrument.
The 'apparent tenor' refers to the clear and obvious meaning of the contents written on the bill of exchange. This includes the amount

payable, the due date, the payee, and any other conditions as stated. 'Payment in due course' and the acceptor's liability are both determined according to what is apparent on the instrument itself.

May/June 2005

52. If a bill is endorsed with the words 'sans recourse', what is the legal implication for the endorser?
(A) The endorser doubles their liability to subsequent holders.
(B) The bill becomes non-negotiable.
(C) The endorser guarantees the payment personally.
(D) The endorser's liability to subsequent holders in case of dishonour is excluded.

Ans :

(D) The endorser's liability to subsequent holders in case of dishonour is excluded.
The phrase 'sans recourse' (without recourse) is a specific contractual stipulation mentioned in relation to Section 35 of the NI Act. By adding these words to an endorsement, the endorser effectively transfers the title to the bill but excludes their own personal liability to subsequent holders if the bill is later dishonoured by the acceptor or drawee.

Oct/Nov 2024

53. Statement I: Bill purchase facility is essentially for usance bills.
Statement II: Bill discounting facility is extended for demand bills.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, and Statement II is incorrect.
(D) Statement I is incorrect, and Statement II is correct.

Ans :

(B) Both Statement I and Statement II are incorrect.
Both statements are incorrect as they reverse the roles. Bill purchase is the facility essentially meant for demand bills, where the bank pays the face value immediately. Bill discounting is the facility specifically designed for usance bills, where the bank pays the face value less a discount representing interest for the unexpired tenor of the bill.

May/June 2011

54. When the due date of a usance bill is not readily known, for example in a bill drawn 'payable some days after sight', when does the period of usance commence?
(A) From the date the bill was drawn.
(B) From the date of presentation to the drawee for acceptance.
(C) From the date the goods were shipped.
(D) From the date the bank purchased the bill.

Ans :

(B) From the date of presentation to the drawee for acceptance.
For a bill payable 'after sight', the tenor or period of usance begins to run from the date the bill is presented to the drawee for acceptance (sight). The due date can only be calculated once this presentation date is established, as it serves as the starting point for counting the number of days or months specified in the bill.

Oct/Nov 2017

55. Assertion (A): A bank financing a documentary bill has better security than one financing a clean bill.
Reason (R): A documentary bill is accompanied by documents of title to goods, which can be held by the bank as security.
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
Assertion (A) is correct because the underlying goods provide tangible security. Reason (R) correctly explains why; the documentary bill gives the bank control over the goods through the documents of title (like a bill of lading). This control provides a fallback recovery option if the bill is dishonoured, making it more secure than a clean bill.

May/June 2008

56. Based on the definition "As per Sec. 9 'Holder in due course' is any person who for consideration became the possessor of the bill (that is to whom the bill is transferred)," can a person who receives

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a bill of exchange as a gift from a friend claim the status of a 'Holder in Due Course'? The bill is valid and not overdue.

(A) No, because the bill was not acquired for consideration.
(B) Yes, because they are the legal possessor of the bill.
(C) Yes, but only if the bill is endorsed in their name.
(D) No, because gifts are not covered under the NI Act.

Ans :

(A) No, because the bill was not acquired for consideration.
The definition from Section 9 explicitly requires that to be a 'Holder in Due Course', a person must have become the possessor of the bill "for consideration." Since the person received the bill as a gift, there was no consideration involved in the transfer. Therefore, they would be a 'Holder' but would not have the superior rights of a 'Holder in Due Course'.

Oct/Nov 2007

57. A seller in Mumbai draws a usance D.A. (Delivery against Acceptance) bill on a buyer in Chennai for goods shipped by rail. The seller's bank in Mumbai sends the bill and the railway receipt to its correspondent bank in Chennai. What must the Chennai bank ensure before handing over the railway receipt to the buyer?

(A) That the buyer has paid the full amount of the bill.
(B) That the goods have physically arrived in Chennai.
(C) That the buyer has signed and 'accepted' the bill of exchange, promising to pay on the due date.
(D) That the seller in Mumbai has given a final confirmation call.

Ans :

(C) That the buyer has signed and 'accepted' the bill of exchange, promising to pay on the due date.
The instruction 'Delivery against Acceptance' (D.A.) dictates the procedure. The collecting bank's duty is to release the documents of title (the railway receipt) to the buyer only after the buyer has legally committed to the future payment by accepting the usance bill. Payment is not required at this stage, only a valid acceptance is.

May/June 2024

58. Match the legal term in List-I with its corresponding Section in the NI Act, 1881 in List-II.

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	List-I (Legal Term)		List-II (Section)
P.	Negotiation	1.	Sec. 15
Q.	Endorsement	2.	Sec. 10
R.	Payment in Due Course	3.	Sec. 11
S.	Inland Instrument	4.	Sec. 14

(A) P-1, Q-4, R-3, S-2
(B) P-4, Q-1, R-2, S-3
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-3, R-4, S-1

Ans :

(B) P-4, Q-1, R-2, S-3
The correct matching based on the NI Act, 1881 is as follows: 'Negotiation' is defined in Section 14. 'Endorsement' is defined in Section 15. 'Payment in Due Course' is defined in Section 10. The definition of an 'Inland Instrument' is provided in Section 11. This combination correctly aligns the legal terms with their respective sections.

Oct/Nov 2010

59. Which of the following statements accurately describes the liability in a bill transaction?

(A) The drawer of a bill has the primary and absolute liability to pay.
(B) The acceptor of a bill has a secondary liability, payable only if the drawer defaults.
(C) The endorser of a bill has no liability whatsoever once the bill is transferred.
(D) The acceptor of a bill has the primary liability to pay the amount at maturity.

Ans :

(D) The acceptor of a bill has the primary liability to pay the amount at maturity.
Once a drawee accepts a bill of exchange, their legal position changes. They become the 'acceptor' and the principal debtor on the instrument. Their liability becomes primary and absolute to pay the amount of the bill on the due date. The liability

Oct/Nov 2009

35. Match the type of bill in List-I with its most appropriate description in List-II.

	List-I (Type of Bill)		List-II (Description)
P.	D.A. Bill	1.	Payable immediately on presentation
Q.	Demand Bill	2.	Documents are delivered against acceptance
R.	Inland Bill	3.	Not accompanied by documents of title
S.	Clean Bill	4.	Drawn in India upon a person resident in India

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-4, S-2

Ans :

(A) P-2, Q-1, R-4, S-3
A D.A. (Delivery against Acceptance) bill is one where documents are released upon the drawee's acceptance. A Demand bill is payable on presentation. An Inland bill is defined as one drawn and payable in India or drawn in India on a resident. A Clean bill is characterized by the absence of any supporting documents of title to goods.

May/June 2020

36. Which of the following items is considered a 'document of title to goods' that might accompany a documentary bill?
(A) A proforma invoice
(B) A certificate of origin
(C) An insurance policy
(D) A bill of lading

Ans :

(D) A bill of lading
A 'document of title to goods' is a document that represents ownership and control over the goods, allowing the holder to take possession of them. A bill of lading (for sea transport), railway receipt, and lorry receipt are primary examples. Other documents like invoices or insurance policies are supportive but are not themselves documents of title.

Oct/Nov 2013

37. Under the Sale of Goods Act and Bill of Lading Act, what is the legal effect of a bank becoming an endorsee of a railway receipt or bill of lading?
(A) The bank becomes a guarantor for the quality of the goods.
(B) The bank is merely an agent for collecting freight charges.
(C) The bank becomes the owner of the goods represented by the document.
(D) The bank's liability is limited to the value of the document itself.

Ans :

(C) The bank becomes the owner of the goods represented by the document.
The endorsement and delivery of a document of title to goods, like a bill of lading or railway receipt, legally transfers the ownership of the goods to the endorsee. Therefore, when a bank takes such documents as security against an advance, it becomes the legal owner of the goods, giving it a strong security interest.

May/June 2006

38. A firm endorsed railway receipts to a bank against a large advance. The railway failed to deliver the goods. The bank sued the railway for damages equal to the value of the goods, which was higher than the advance. Based on the precedent in Morvi Mercantile Bank Ltd. vs Union of India, what is the likely outcome?
(A) The bank can only claim the amount of the advance it gave.
(B) The bank, as the endorsee of the railway receipts, is entitled to claim the full value of the consignment.
(C) The bank has no right to sue the railway; only the original consignor can.
(D) The railway is not liable as the contract was with the consignor, not the bank.

Ans :

(B) The bank, as the endorsee of the railway receipts, is entitled to claim the full value of the consignment.
The Supreme Court's decision in this case established that a bank, as the endorsee of a document of title (the railway receipts), effectively becomes the owner of the goods. Therefore, the bank is entitled to sue the carrier for the full loss

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CHAPTER 35
Personal Finance

May/June 2012

1. According to the typical structure of a credit card transaction, what is the primary guarantee on which credit is extended to a cardholder for purchases at a merchant establishment?
(A) The guarantee of the cardholder's employer
(B) The guarantee of the issuer of the credit card for payment
(C) The guarantee of the merchant establishment for payment
(D) The guarantee of the credit card association (e.g., Visa, MasterCard)

Ans :

(B) The guarantee of the issuer of the credit card for payment
A credit card is issued to approved clients for purchasing goods or services from authorised merchant establishments. The fundamental principle is that the transaction is backed by the guarantee of the credit card issuer, who assures the merchant of payment. The cardholder then settles the dues with the issuer as per the agreed terms.

Oct/Nov 2016

2. In the context of the credit card ecosystem, which entity is primarily responsible for entering into agreements with merchants to process their credit card transactions?
(A) Merchant acquirer
(B) Cardholder
(C) Card issuer
(D) Credit card association

Ans :

(A) Merchant acquirer
Merchant acquirers, which can be Banks or NBFCs, play a crucial role by entering into agreements directly with merchants. Their function is to enable merchants to accept credit cards for payment by processing these transactions. They act as an intermediary between the merchant and the card issuer/ association for settlement of funds from the customer's transaction.

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May/June 2009

3. Which of the following is identified as a key benefit for a credit card holder?
(A) A mandatory interest-free credit period of 60 days on all purchases
(B) The ability to carry forward the balance amount without any finance charges
(C) An interest-free credit period that can range from 15 to 51 days
(D) Guaranteed approval for cash withdrawals equivalent to the full credit limit

Ans :

(C) An interest-free credit period that can range from 15 to 51 days
One of the significant advantages for a credit card holder is the provision of an interest-free credit period. This period, which varies based on the transaction date and billing cycle, typically ranges from 15 to 51 days. It allows the cardholder to make purchases and pay for them later without incurring immediate interest charges.

Oct/Nov 2021

4. For a merchant establishment (ME), what is a primary advantage of accepting credit card payments?
(A) The ability to offer unlimited credit to all customers
(B) A guaranteed increase in profit margins on every sale
(C) Elimination of all transaction processing fees charged by banks
(D) Reduced need to provide its own costly extended credit facility to customers

Ans :

(D) Reduced need to provide its own costly extended credit facility to customers
By accepting credit cards, merchant establishments can cater to customers who may not have immediate cash. This reduces the pressure on the

merchant to offer their own credit lines, which can be a costly and risky administrative burden. The credit facility is effectively outsourced to the card-issuing bank, simplifying the merchant's financial management.

May/June 2019

5. Which of the following is a recognized benefit for a bank that issues credit cards?
(A) Reduced KYC compliance requirements for new customers
(B) Guaranteed profitability from every cardholder account irrespective of usage
(C) Savings on expenses related to cash handling and clearing transactions
(D) The ability to share customer data with third-party marketers without consent

Ans :

(C) Savings on expenses related to cash handling and clearing transactions
For banks, promoting credit card usage contributes to operational efficiency. As more transactions are routed electronically, the physical handling of cash decreases. This leads to savings on costs associated with cash logistics, security, and the workforce required for manual clearing of transactions, thereby streamlining the bank's payment processing operations and reducing overheads.

Oct/Nov 2011

6. What is a primary disadvantage associated with the use of a credit card for a cardholder?
(A) The cardholder is always liable for fraudulent withdrawals, even after reporting the loss
(B) It can lead to overspending and falling into a debt trap
(C) The interest-free period is not applicable for any retail purchases
(D) It cannot be used for making purchases at merchants in another country

Ans :

(B) It can lead to overspending and falling into a debt trap
A significant risk for credit card holders is the temptation to overspend beyond their repayment capacity. The ease of access to credit can lead to accumulating a large outstanding balance. If the cardholder only makes minimum payments, the high finance charges can cause the debt to grow, potentially leading to a long-term debt trap.

May/June 2005

7. As per RBI's Master Directions dated 21st April 2022, what is the minimum net worth requirement for a Scheduled Commercial Bank (SCB), excluding Regional Rural Banks, to undertake credit card business?
(A) ₹50 crore
(B) ₹200 crore
(C) ₹500 crore
(D) ₹100 crore

Ans :

(D) ₹100 crore
The Reserve Bank of India has stipulated specific eligibility criteria for banks to enter the credit card market. A Scheduled Commercial Bank (SCB), other than a Regional Rural Bank (RRB), must have a net worth of ₹100 crore or more to be eligible to undertake credit card business, either departmentally or through a subsidiary.

Oct/Nov 2007

8. According to RBI guidelines, what is the penalty a card-issuer must pay if an unsolicited card is issued and activated without the recipient's explicit consent, leading to billing?
(A) A penalty of twice the charges billed to the recipient
(B) A penalty equal to the charges billed to the recipient
(C) A flat penalty of ₹5,000
(D) A penalty determined by the Banking Ombudsman

Ans :

(A) A penalty of twice the charges billed to the recipient
RBI guidelines strictly prohibit the issuance of unsolicited cards or the unauthorized upgradation of existing cards. If a card-issuer violates this rule by issuing and activating a card without the explicit consent of the recipient and bills for it, the issuer must not only reverse the charges but also pay a penalty equal to double that amount.

May/June 2023

9. In the process of sanctioning a credit card, what is the specified role of a Direct Sales Agent (DSA) or Direct Marketing Agent (DMA)?
(A) To independently assess the credit risk of the applicant

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(B) To make the final decision on the issuance of the credit card
(C) To be limited to soliciting/servicing the customer/account
(D) To be solely responsible for the fulfillment of KYC requirements

Ans :

(C) To be limited to soliciting/servicing the customer/account
As per regulatory guidelines, the role of third-party agents like DSAs or DMAs in the credit card issuance process is clearly defined. Their activities should be restricted to soliciting applications and providing customer service. The ultimate decision-making authority for sanctioning the card and the responsibility for credit risk assessment rest solely with the card-issuing bank/NBFC.

Oct/Nov 2025

10. When issuing credit cards, what is the bank's/NBFC's responsibility regarding applicants like students or others with no independent financial means?
(A) To ensure prudence and independently assess the credit risk
(B) To reject all such applications without assessment
(C) To grant a credit card based solely on a parental guarantee
(D) To provide a standard, pre-approved credit limit to all such applicants

Ans :

(A) To ensure prudence and independently assess the credit risk
Banks and NBFCs are mandated to exercise caution and prudence when considering credit card applications from individuals who do not have an independent source of income, such as students. The issuer must conduct an independent and thorough assessment of the credit risk involved before making a decision, rather than relying on generalized or indirect financial assurances.

May/June 2014

11. What is a mandatory document that a card-issuer must provide along with the credit card application form to ensure transparency?
(A) A copy of the card-issuer's latest annual report
(B) A detailed list of all existing cardholders in the applicant's area
(C) A comparative chart of competitor interest rates
(D) A one-page Key Fact Statement

Ans :

(D) A one-page Key Fact Statement
To promote transparency and help applicants make informed decisions, RBI guidelines mandate that card-issuers provide a one-page Key Fact Statement with the application form. This document must clearly and concisely state the most important terms of the card, such as the rate of interest, quantum of charges, and other essential conditions.

Oct/Nov 2018

12. At which stage(s) must the Most Important Terms and Conditions (MITC) be provided to a credit card customer?
(A) Only at the time of issuing the card (welcome kit)
(B) During marketing, at application, at issuance, and in subsequent communications
(C) Only during the marketing of the card
(D) Only in important subsequent communications after issuance

Ans :

(B) During marketing, at application, at issuance, and in subsequent communications
The guidelines emphasize continuous and consistent communication of the Most Important Terms and Conditions (MITC). Card-issuers are required to provide the MITC at all key stages of the customer lifecycle, including during the initial marketing pitch, at the time of application, within the welcome kit upon card issuance, and in important subsequent communications.

May/June 2025

13. How are card-issuers required to handle the conversion of credit card transactions into Equated Monthly Instalments (EMIs)?
(A) They can camouflage the interest component as a processing fee
(B) They are permitted to advertise interest-bearing EMIs as 'no-cost EMIs'
(C) They must ensure complete transparency by clearly informing about principal, interest, and any upfront discount

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(B) Changes in charges, other than interest, can be applied with retrospective effect.
(C) The method of calculation for late payment charges must be prominently indicated.
(D) Credit card dues are classified as non-priority sector personal loans.

Ans :

(B) Changes in charges, other than interest, can be applied with retrospective effect.
To protect consumers from sudden and unexpected financial burdens, regulatory guidelines stipulate that any changes to fees or charges (excluding interest rates) must be implemented with prospective effect only. Furthermore, the bank must provide the cardholder with a notice period of at least one month before the new charges become effective.

May/June 2018

23. What is the minimum number of days a customer should be given for making a payment before interest starts getting charged, assuming no delay in bill dispatch?
(A) At least 7 days
(B) At least 21 days
(C) At least 30 days
(D) At least one fortnight (14-15 days)

Ans :

(D) At least one fortnight (14-15 days)
The guidelines ensure that customers have a reasonable amount of time to review their statement and make payment. Card issuers must ensure there is no delay in dispatching bills and that the customer has a sufficient period, defined as at least one fortnight, to pay the dues before any interest or late payment charges are levied.

Oct/Nov 2017

24. A legend stating "Making only the minimum payment every month would result in the repayment stretching over years with consequent interest payment on your outstanding balance" must be displayed prominently in which documents?
(A) In the Welcome Kit and all monthly statements
(B) Only in the Welcome Kit
(C) Only in the application form
(D) Only when the customer defaults on a payment

Ans :

(A) In the Welcome Kit and all monthly statements
To constantly remind cardholders of the high cost of revolving credit, this specific warning legend is mandatory. It must be prominently displayed in the Welcome Kit provided at the time of card issuance and, crucially, must also appear in every single monthly statement sent to the cardholder, ensuring continuous awareness of this financial implication.

May/June 2011

25. If a cardholder wishes to surrender their card due to a change in charges that is disadvantageous to them, what is the bank's obligation?
(A) The bank can charge a surrender penalty
(B) The cardholder must wait for a 3-month cooling-off period
(C) The bank must permit the surrender without any extra charge for closure
(D) The surrender is only permitted at the end of the billing cycle

Ans :

(C) The bank must permit the surrender without any extra charge for closure
This provision acts as a consumer protection measure. If a card issuer introduces changes to charges or fees that a cardholder finds disadvantageous, the cardholder has the right to opt-out by surrendering their card. In such cases, the bank is obligated to process the closure without levying any additional fees or penalties for it.

Oct/Nov 2010

26. In the event of a customer protesting a bill, what is the maximum period within which the card-issuing bank/NBFC must provide an explanation and necessary documentary evidence?
(A) 30 days
(B) 7 days
(C) 15 days
(D) 60 days

Ans :

(A) 30 days
For effective and timely dispute resolution, a clear timeline is set for handling billing complaints. When a customer disputes an item on their bill, the card issuer is required to investigate the matter

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While banks are required to be transparent about all customer-facing terms, they are not obligated to disclose internal financial metrics like their profit margins on the credit card portfolio. The focus of disclosure requirements is on information that directly affects the cardholder, such as fees, interest calculation, payment obligations, and the consequences of certain payment behaviors.

Oct/Nov 2012

18. What type of cards are banks mandated to issue for all new and replacement credit cards?
(A) EMV Chip and PIN enabled cards
(B) Magnetic stripe only cards
(C) Cards with only PIN enabled features
(D) Signature-only laminated cards

Ans :

(A) EMV Chip and PIN enabled cards
To enhance security and reduce fraud, regulatory guidelines mandate that all new credit cards issued and all cards issued as replacements must be EMV Chip and PIN enabled. This technology provides superior security for transactions compared to the older magnetic stripe cards by using dynamic data, making card cloning significantly more difficult for fraudsters.

May/June 2010

19. If a bank needs to reduce the credit limit on a card, what is the prescribed procedure?
(A) Reduce the limit and inform the customer in the next monthly statement
(B) Seek the customer's prior approval before reducing the limit
(C) Inform the customer immediately with reason by SMS/e-mail, followed by a written confirmation
(D) No information is required if the reduction is less than 20%

Ans :

(C) Inform the customer immediately with reason by SMS/e-mail, followed by a written confirmation
A unilateral reduction in credit limit can impact a customer's financial planning. Therefore, if a bank decides to reduce a card's limit, it is required to inform the customer immediately, providing the reason for the action. The initial communication should be via instant channels like SMS or email, which must be followed by a confirmation in writing.

Oct/Nov 2023

20. Within how many working days must a bank comply with a card cancellation request and confirm the closure to the customer, provided all dues are settled?
(A) 3 working days
(B) 15 working days
(C) 30 working days
(D) 7 working days

Ans :

(D) 7 working days
To ensure prompt customer service and prevent undue delays, banks are mandated to act swiftly on closure requests. Once a customer submits a request for card cancellation (in writing or through registered e-mail ID) and settles any outstanding amount, the bank must complete the cancellation process and confirm it within 7 working days.

May/June 2008

21. Before reporting a credit card default to a Credit Information Company (CIC), what must a bank do?
(A) Obtain the customer's written consent to report the default
(B) Wait for a period of 90 days from the first day of default
(C) Adhere to a Board-approved procedure, including giving sufficient notice to the cardholder
(D) Report the default immediately on the first day the payment is overdue

Ans :

(C) Adhere to a Board-approved procedure, including giving sufficient notice to the cardholder
Reporting a default to a CIC has significant implications for a customer's credit history. Therefore, banks cannot act arbitrarily. They must follow a procedure approved by their Board of Directors, which includes the crucial step of providing sufficient prior notice to the cardholder, giving them an opportunity to settle the dues before the negative information is reported.

Oct/Nov 2005

22. Which of the following statements about interest rates and charges on credit cards is INCORRECT?
(A) Card issuers should quote Annualized Percentage Rates (APR) on their products.

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Oct/Nov 2011

48. What is the primary characteristic of a personal loan, such as a salary loan, that distinguishes it from a home loan?
(A) It has a much longer repayment period, typically exceeding 30 years
(B) It is given for a specific purpose like marriage, education, or medical expenses without tangible security
(C) The interest rate is always fixed and cannot be floating
(D) It is only available to government employees

Ans :

(B) It is given for a specific purpose like marriage, education, or medical expenses without tangible security
Unlike home loans or vehicle loans which are secured against a specific asset, personal loans are generally unsecured. They are granted based on the borrower's income and creditworthiness rather than on tangible collateral. The purpose is typically for personal consumption like meeting expenses for marriage, education, medical needs, or other household requirements.

May/June 2005

49. For a salary loan applicant, what factor may allow a bank to consider granting a higher loan amount?
(A) If the applicant agrees to a higher processing fee
(B) If the applicant's employer gives an undertaking to recover the EMI from the salary
(C) If the applicant is a new employee with less than one year of service
(D) If the applicant does not have a salary account with the lending bank

Ans :

(B) If the applicant's employer gives an undertaking to recover the EMI from the salary
The repayment capacity and assurance of recovery are key factors in determining the loan amount. If an applicant's employer provides a formal undertaking to deduct the EMI directly from the employee's monthly salary and remit it to the bank, it significantly reduces the bank's credit risk. This enhanced security often enables the bank to offer a higher loan amount.

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Oct/Nov 2007

50. What is a defining feature regarding the interest rate for a personal loan compared to a loan with collateral security?
(A) The interest rate will be higher as there is no collateral security
(B) The interest rate is typically lower due to the shorter tenure
(C) The interest rate is regulated directly by the RBI and is uniform across all banks
(D) The interest rate is subsidized by the government

Ans :

(A) The interest rate will be higher as there is no collateral security
The interest rate on a loan is directly correlated with the risk perceived by the lender. Since personal loans are unsecured (i.e., they lack collateral), the risk of default is higher for the bank compared to secured loans like home or auto loans. To compensate for this increased risk, banks charge a higher rate of interest on personal loans.

May/June 2023

51. What is the typical repayment period that banks allow for personal loans, such as salary loans?
(A) 12-24 months
(B) 24-48 months
(C) 36-60 months
(D) 60-84 months

Ans :

(C) 36-60 months
Personal loans are medium-term credit facilities. To ensure the Equated Monthly Installment (EMI) remains manageable for the borrower while keeping the overall interest cost reasonable, banks typically structure the repayment tenure for these loans over a period of 3 to 5 years, which corresponds to a range of 36 to 60 months.

Oct/Nov 2025

52. What is the primary security for a consumer loan granted for the purchase of a durable like a refrigerator or a personal computer?
(A) Mortgage of an immovable property
(B) Pledge of financial securities
(C) A third-party guarantee
(D) Hypothecation of the article purchased

and provide a suitable explanation, supported by documentary evidence if needed, to the customer within a maximum period of thirty days from the complaint date.

May/June 2017

27. If a complainant does not receive a satisfactory response from a bank/NBFC (which is a subsidiary of a bank) regarding a credit card grievance within 30 days, what is their next course of action?

(A) They must file a civil suit in court
(B) They must re-submit the complaint to the bank's head office
(C) They can directly escalate the issue to the Reserve Bank of India
(D) They have the option to approach the Banking Ombudsman

Ans :

(D) They have the option to approach the Banking Ombudsman
The grievance redressal mechanism has a structured escalation path. If a customer's complaint is not resolved to their satisfaction by the card issuer within the stipulated 30-day period, they are entitled to escalate the matter. The designated next level of recourse for such unresolved complaints is the office of the Banking Ombudsman.

Oct/Nov 2024

28. Under what circumstance is a bank required to reimburse the loss to a customer without any demur in case of a fraudulent Card Not Present (CNP) transaction?

(A) If the customer fails to report the transaction within 24 hours
(B) If two-factor authentication (2FA) was not put in force for the transaction
(C) If the transaction amount is below ₹1,000
(D) If the customer had not opted for transaction alerts

Ans :

(B) If two-factor authentication (2FA) was not put in force for the transaction
Two-factor authentication (2FA) is a critical security measure mandated by the RBI for Card Not Present (CNP) transactions to prevent fraud. If a fraudulent CNP transaction occurs and the bank failed to implement 2FA for that transaction, the liability shifts to the bank. The bank must then reimburse the customer for the loss without delay.

May/June 2021

29. What is the primary purpose of 'Tokenisation' in credit card transactions?

(A) To increase the credit limit on the card automatically
(B) To allow transactions without any authentication
(C) To replace actual card details with an alternate code called a "token"
(D) To consolidate multiple credit cards into a single physical card

Ans :

(C) To replace actual card details with an alternate code called a "token"
Tokenisation is a security process designed to protect sensitive card information. It works by replacing the actual 16-digit card number, expiry date, and CVV with a unique, algorithmically generated set of numbers and letters called a "token". This token is then used for processing the transaction, ensuring the real card details are never exposed to the merchant.

Oct/Nov 2008

30. Who are the primary parties involved in a tokenised card transaction?

(A) Merchant, token requestor, issuer, and customer only
(B) Customer, issuer, and token service provider only
(C) Merchant, merchant's acquirer, and the customer only
(D) Merchant, merchant's acquirer, token service provider, token requestor, issuer, and customer

Ans :

(D) Merchant, merchant's acquirer, token service provider, token requestor, issuer, and customer
A tokenised transaction involves a multi-party ecosystem. The process includes the merchant, the merchant's acquirer (who processes the payment), the token requestor (who initiates the tokenisation), the token service provider (card network), the card issuer (who consents), and the customer. This chain ensures secure and authenticated processing without exposing the actual card data.

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May/June 2006

31. Home loans are a predominant component of which category of loans extended by banks?
(A) Retail loans
(B) Agricultural loans
(C) Corporate loans
(D) Priority sector loans

Ans :

(A) Retail loans
Retail loans are loans extended to individuals for personal needs rather than for business or commercial purposes. This category includes a variety of products such as vehicle loans, consumer loans, and personal loans. Among these, home loans, which are used for purchasing or constructing residential property, constitute a predominant and significant component of a bank's retail lending portfolio.

Oct/Nov 2014

32. What is the maximum repayment period that may be extended for a home loan, subject to other age-related conditions?
(A) 15 years
(B) 30 years
(C) 20 years
(D) 25 years

Ans :

(B) 30 years
To make housing loans more affordable by lowering the Equated Monthly Installment (EMI), banks often offer long repayment tenures. The repayment period for a home loan can be extended up to a maximum of 30 years. However, this is also subject to the condition that the loan tenure does not go beyond the borrower's retirement age or 70 years.

May/June 2024

33. For a home loan, what is the standard form of security that banks take?
(A) Hypothecation of household goods
(B) Mortgage on the property purchased or constructed
(C) Pledge of shares and securities
(D) A third-party guarantee from an existing bank customer

Ans :

(B) Mortgage on the property purchased or constructed
Home loans are secured loans, meaning the bank takes a charge over a tangible asset as collateral. The standard and primary security for a housing loan is the legal mortgage of the property that is being financed with the loan amount. This gives the bank the right to take possession of and sell the property in case of a default.

Oct/Nov 2019

34. In home loan financing, when is a spouse or other joint owner of a property typically required to be added as a co-borrower?
(A) If the spouse's income is considered for loan eligibility or if the property is in joint name
(B) Only if the loan amount exceeds ₹75 lakh
(C) In all cases, regardless of income or ownership
(D) Only if the primary applicant is self-employed

Ans :

(A) If the spouse's income is considered for loan eligibility or if the property is in joint name
To secure the loan and establish clear liability, co-borrowers are added under specific conditions. If the income of a spouse is included to calculate a higher loan eligibility, they must be made a co-borrower. Similarly, if the property being financed is registered in the joint names of two or more individuals, all joint owners must be included as co-borrowers.

May/June 2013

35. Which of the following is a permissible purpose for which banks can grant a home loan?
(A) For construction of buildings meant purely for Government offices
(B) To finance projects undertaken by public sector entities that are not corporate bodies
(C) For purchase of a house by a borrower who proposes to let it out on rent
(D) To substitute budgetary resources envisaged for a government-promoted housing project

Ans :

(C) For purchase of a house by a borrower who proposes to let it out on rent
Banks are permitted to grant home loans for the purchase of a house even if the borrower intends to rent it out. This may happen if the borrower has been posted outside their headquarters or has employer-provided accommodation. The other options listed are generally considered prohibited

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purposes for bank financing under housing loan schemes.

Oct/Nov 2015

36. As per the stipulated conditions regarding home loans to prevent unauthorized construction, what must a bank obtain from a borrower constructing a house on their own plot?
(A) A character certificate from a local authority
(B) An affidavit that they will not rent out the property for 5 years
(C) A guarantee from the building contractor
(D) A copy of the sanctioned plan by a competent authority in their name

Ans :

(D) A copy of the sanctioned plan by a competent authority in their name
To ensure that bank finance does not support illegal constructions, specific documentation is required. When financing the construction of a house on a borrower's own land, the bank must obtain a copy of the building plan that has been officially sanctioned by the competent municipal or local authority, and this plan must be in the borrower's name.

May/June 2020

37. What is the potential consequence for a borrower if they fail to obtain a completion certificate within 3 months of construction completion, as per the required affidavit-cum-undertaking?
(A) The bank may increase the interest rate by 2%
(B) The loan will be automatically converted to a commercial loan
(C) The bank may recall the entire loan with interest and costs
(D) The borrower will be barred from future loans for 5 years

Ans :

(C) The bank may recall the entire loan with interest and costs
The affidavit-cum-undertaking is a serious commitment by the borrower to adhere to legal building norms. A key condition is to obtain the completion certificate from the authorities, proving the construction is as per the sanctioned plan. Failure to produce this certificate within the stipulated three-month period constitutes a breach, giving the bank the right to recall the entire loan amount immediately.

Oct/Nov 2022

38. Which of the following is a prohibited purpose for which banks should NOT grant finance under home loan schemes?
(A) For repairs to a damaged dwelling unit
(B) For construction of buildings meant purely for Municipal and Panchayat offices
(C) For purchase of a second house in another town
(D) To an individual who proposes to buy an old house where he is residing as a tenant

Ans :

(B) For construction of buildings meant purely for Municipal and Panchayat offices
Bank finance for housing has specific end-use restrictions. Banks are prohibited from granting loans for the construction of buildings intended purely to be used as government or semi-government offices, including municipal or panchayat offices. The only exception is if such projects are eligible for refinance from institutions like NABARD, which is not the default case.

May/June 2015

39. When can banks extend finance to public agencies for the acquisition and development of land as part of a complete project?
(A) Only if the project completion time is over five years
(B) The facility can be extended to both public agencies and private builders
(C) The finance is based on the future estimated value of the land
(D) The project should be completed within three years

Ans :

(D) The project should be completed within three years
Banks are permitted to finance public agencies for land acquisition and infrastructure development, but it must be part of a complete, time-bound project. A key condition for such financing is that the project must be scheduled for completion within a three-year timeframe. This ensures that funds are used for timely development and not for long-term land speculation.

Oct/Nov 2009

40. For what purpose can commercial banks extend credit to private builders on commercial terms?

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(D) They only need to disclose the final EMI amount without breaking it down

Ans :

(C) They must ensure complete transparency by clearly informing about principal, interest, and any upfront discount

To prevent misleading practices, card-issuers must maintain full transparency when converting transactions to EMIs. They are required to clearly disclose the principal amount, the applicable interest rate, and any upfront discount offered by the merchant or issuer (which may make it a 'no-cost' EMI). This breakdown must be provided before conversion and in the bill.

Oct/Nov 2006

14. If a card-issuer offers an insurance cover for liabilities arising from a lost card in tie-up with an insurance company, what is a mandatory requirement?

(A) The insurance is automatically activated for all cardholders

(B) The cardholder must contact the insurance company directly to opt-in

(C) The details of the nominee are decided by the card-issuer on behalf of the cardholder

(D) The card-issuer must obtain explicit written or digital consent from the cardholder

Ans :

(D) The card-issuer must obtain explicit written or digital consent from the cardholder

When an optional insurance cover is offered, the card-issuer cannot enroll the customer by default. It is mandatory to obtain explicit consent from the cardholder, either in writing or through a digital mode. The issuer must also record the nominee details provided by the cardholder and subsequently furnish the insurance company's contact particulars for claims.

May/June 2016

15. In the case of a corporate credit card where the account is in the corporate's name but cards are used by employees, what must be clearly specified?

(A) The responsibilities and liabilities of both the corporate and its employees

(B) The employees are solely liable for all charges

(C) The corporate has no liability for any dues on the card

(D) The card can only be used for personal expenses of the employees

Ans :

(A) The responsibilities and liabilities of both the corporate and its employees

For corporate credit cards, it is essential to have a clear and unambiguous agreement outlining the division of responsibility. The terms must explicitly state the respective liabilities of the corporate entity and the individual employee users. This prevents disputes regarding payment obligations for business expenses or any personal use as defined in the policy.

Oct/Nov 2013

16. What is the liability arrangement for an add-on credit card issued to a family member of the principal cardholder?

(A) The add-on cardholder is solely responsible for their own spending

(B) The liability rests solely with the principal cardholder

(C) The liability is shared equally between the principal and add-on cardholder

(D) The liability is waived if the add-on cardholder is a student

Ans :

(B) The liability rests solely with the principal cardholder

When an add-on card is issued, it is an extension of the primary credit account. While it provides spending power to a family member, the legal and financial liability for all transactions made on the add-on card remains entirely with the principal cardholder. The bank holds the primary account holder responsible for the consolidated dues.

May/June 2007

17. Which of the following is NOT a term or condition that a bank/NBFC must explain to a customer when they apply for a credit card?

(A) Fees, interest, and other charges

(B) The bank's profit margin on the credit card business

(C) Billing and payment procedures

(D) Financial implications of paying only the 'minimum amount due'

Ans :

(B) The bank's profit margin on the credit card business

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(B) NACH (National Automated Clearing House) authorisation

For efficient and timely collection of EMIs, banks prefer automated payment methods. The NACH authorisation is a mandate given by the borrower to the bank, permitting it to directly debit the EMI amount from their specified bank account on the due date each month. This system automates the payment process, benefiting both the lender and the borrower.

May/June 2009

45. What right does a lender have under Section 25 of the Payment and Settlement Systems Act if a NACH payment fails due to inadequate balance?

(A) To increase the interest rate on the loan

(B) To immediately seize the mortgaged property

(C) To make a criminal complaint against the borrower for dishonor of payment instructions

(D) To report the borrower to the local police station for non-payment

Ans :

(C) To make a criminal complaint against the borrower for dishonor of payment instructions

Dishonor of an electronic funds transfer instruction, like a NACH mandate, due to insufficient funds is treated as a serious offense, similar to the bouncing of a cheque. Under Section 25 of the Payment and Settlement Systems Act, this gives the lender the legal right to initiate criminal proceedings against the borrower for the dishonor of the payment instruction.

Oct/Nov 2021

46. Consider the following case: A bank introduces a special housing loan scheme in association with a builder, marketed as a '20:80' scheme. Under this, the bank disburses the entire sanctioned loan amount to the builder upfront, even though the housing project is in its initial stages. The builder agrees to pay the EMI on behalf of the borrower for the first three years. What is the primary risk for the bank in the '20:80' scheme described in this case?

(A) The borrower might prepay the loan after the builder's EMI payment period ends

(B) The builder might demand a higher interest rate from the bank

(C) The scheme violates the maximum permissible loan tenure of 30 years

(D) The upfront disbursal is not linked to the stages of construction, exposing the bank to project completion risk

Ans :

(D) The upfront disbursal is not linked to the stages of construction, exposing the bank to project completion risk

Such innovative schemes carry significant risks because the disbursal of funds is not tied to the actual progress of construction. By disbursing the full amount upfront to the builder, the bank is heavily exposed. If the builder defaults or fails to complete the project, the bank's funds are at risk with no completed asset as security.

May/June 2019

47. Consider the following case: Mr. Sharma has a home loan with a floating interest rate. After five years, he receives a financial windfall and decides to pay off the entire outstanding loan balance in a single payment. The bank informs him that a penalty of 2% of the outstanding principal will be charged for this early closure. Based on RBI instructions regarding home loans, is the bank's action of levying a pre-payment penalty in Mr. Sharma's case correct?

(A) No, because RBI has instructed banks not to charge pre-payment penalties on floating interest rate home loans

(B) Yes, as banks have the discretion to levy foreclosure charges on all loans

(C) Yes, because the prepayment is being made within the first five years of the loan

(D) No, because the penalty can only be charged if the pre-payment amount is less than 25% of the outstanding balance

Ans :

(A) No, because RBI has instructed banks not to charge pre-payment penalties on floating interest rate home loans

In response to customer grievances and to promote transparency, the Reserve Bank of India has issued specific instructions on this matter. RBI has directed banks that they cannot levy foreclosure charges or pre-payment penalties on home loans that are on a floating interest rate basis. Therefore, the bank's action in this case is not permissible.

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(A) For loans linked to a specific housing project's construction
(B) For acquisition of land as part of a housing project
(C) As a substitute for the builder's own capital contribution
(D) For speculative activities in the land market

Ans :

(A) For loans linked to a specific housing project's construction
While banks are generally prohibited from financing private builders for land acquisition, they can provide credit for construction activities. This financing must be on commercial terms and linked to a specific, identifiable project. The intent is to support the creation of housing stock, with close monitoring to ensure funds are not diverted for land speculation.

May/June 2022

41. In deciding the quantum of a loan, a bank adopts the following norms: For Individual Housing Loans up to ₹30 lakh, the Risk Weight is 35% for an LTV ratio < 80% and 50% for an LTV ratio > 80% and < 90%. For loans above ₹30 lakh and up to ₹75 lakh, the Risk Weight is 35% for an LTV ratio < 80%. For loans above ₹75 lakh, the Risk Weight is 50% for an LTV ratio < 75%. For CRE – RH, the Risk Weight is 75%. Based on these norms, what is the applicable Risk Weight for an individual housing loan of ₹25 lakh where the Loan-to-Value (LTV) ratio is 85%?
(A) 35%
(B) 75%
(C) 50%
(D) Cannot be determined

Ans :

(C) 50%
According to the provided norms, for individual housing loans up to ₹30 lakh, the risk weight depends on the LTV ratio. The question states the loan is ₹25 lakh and the LTV is 85%. This falls into the > 80% and < 90% LTV bracket for this loan category, which corresponds to a specific risk weight of 50%.

Oct/Nov 2020

42. Under what specific circumstance may a bank add stamp duty, registration, and other documentation charges to the cost of a house for calculating the LTV ratio?
(A) When the house cost does not exceed ₹10 lakh for EWS/LIG housing
(B) When the loan amount is above ₹75 lakh
(C) For all loans to salaried individuals
(D) This is never permitted under any circumstance

Ans :

(A) When the house cost does not exceed ₹10 lakh for EWS/LIG housing
Generally, charges like stamp duty and registration are excluded when calculating the property value for the LTV ratio. However, an exception is made to encourage affordable housing. For housing units intended for Economically Weaker Sections (EWS) and Low Income Groups (LIG) where the total cost does not exceed ₹10 lakh, banks are permitted to include these charges.

May/June 2012

43. Which document is typically required to verify the property's legal history over a long period, often specified as 30 years?
(A) Agreement of Sale
(B) Approved building plan
(C) Valuation report
(D) Title Search document

Ans :

(D) Title Search document
To ensure the property has a clear and marketable title free from disputes, banks require a thorough investigation of its ownership history. A Title Search document, prepared by a legal expert, traces the chain of ownership and transactions related to the property for a specified period, often 30 years, to identify any legal impediments or claims.

Oct/Nov 2016

44. To ensure hassle-free EMI payments for a home loan, what authorization do banks typically take from the borrower at the time of documentation?
(A) A series of post-dated cheques for the entire loan tenure
(B) NACH (National Automated Clearing House) authorisation
(C) A power of attorney to operate the borrower's salary account
(D) A standing instruction to sell securities in case of a single default

Ans :

NODIA

Ans :

(D) Hypothecation of the article purchased
In a consumer loan, the item being financed itself serves as the security. The legal charge created is hypothecation, where the borrower retains possession of the asset (e.g., the refrigerator), but the lender has the right to seize it in case of default. This distinguishes it from a pledge where possession is with the lender.

May/June 2014

53. What is the typical margin requirement stipulated by banks for consumer loans?
(A) 0%-5%
(B) 5%-10%
(C) 10%-20%
(D) 25%-30%

Ans :

(C) 10%-20%
Margin refers to the portion of the asset's cost that the borrower must fund from their own resources, also known as the down payment. For consumer loans, banks typically do not finance 100% of the cost. They require the borrower to contribute a margin, which is normally stipulated in the range of 10% to 20% of the article's price.

Oct/Nov 2018

54. What is the generally permitted repayment period for a consumer loan?
(A) 1 to 2 years
(B) 3 to 5 years
(C) 5 to 7 years
(D) 7 to 10 years

Ans :

(B) 3 to 5 years
Consumer loans are meant for financing goods with a limited economic life. The repayment period is aligned with this characteristic, being shorter than that for a home loan but sufficient to make the EMI affordable. Banks typically allow a repayment tenure ranging from 3 years to 5 years for consumer durable loans.

May/June 2025

55. Consider the following case: A bank is evaluating a personal loan application from a salaried individual. The applicant's gross monthly salary is ₹80,000. The bank's policy is to sanction a loan amount up to 15 times the net monthly salary, ensuring that the take-home pay after the proposed EMI is not less than 40% of the gross salary. In this case, which two factors are critical for determining the eligible loan amount?
(A) The cost of the article to be purchased and the margin
(B) The applicant's employer and the loan purpose
(C) The availability of collateral security and a third-party guarantee
(D) The applicant's income level and the minimum stipulated take-home pay

NODIA

Ans :

(D) The applicant's income level and the minimum stipulated take-home pay
For an unsecured personal loan, the primary consideration is the borrower's repayment capacity. The bank calculates the eligible amount based on a multiple of the applicant's salary. Crucially, it also enforces a minimum take-home pay norm (e.g., 40% of gross salary) to ensure the borrower has sufficient funds for living expenses after EMI payment.

Oct/Nov 2006

56. The following is an excerpt from a bank's terms: "Banks will notify changes in schedule of fees/ charges or in terms & conditions, including along with the monthly statement of account. Changes in charges (other than interest) may be made only with prospective effect, giving notice of at least one month. If a credit card holder desires to surrender his credit card on account of any change in the charges to his disadvantage, he may be permitted to do so, without any extra charge for such a closure." According to this source, if a bank decides to increase the annual fee on its credit card, what is the minimum notice period it must give to the cardholders?
(A) At least one month
(B) 7 days
(C) 15 days
(D) No notice is required

Ans :

(A) At least one month
The source text explicitly states that changes in charges, other than interest, can only be made with prospective effect. It further specifies that the bank must provide a notice of "at least one month" before the new charges are implemented.

CHAPTER 36
Priority Sector Advances

Oct/Nov 2018

1. In which year was the description of priority sectors first formalised, based on the report from an informal study group constituted by the Reserve Bank of India?
(A) 1971
(B) 1972
(C) 1980
(D) 1985

Ans :

(B) 1972
The concept of priority sectors was formally described in 1972. This was based on the recommendations of a report submitted by the informal study group on statistics relating to advances to the priority sectors, which had been constituted by the Reserve Bank of India in May 1971. This marked the official beginning of a structured approach to priority sector lending.

May/June 2005

2. According to the guidelines issued in 1980, what was the target for priority sector lending that all commercial banks were advised to achieve, and by which year?
(A) 40% of aggregate bank advances by 1985
(B) 30% of aggregate bank advances by 1985
(C) 40% of aggregate bank advances by 1990
(D) 50% of aggregate bank advances by 1988

Ans :

(A) 40% of aggregate bank advances by 1985
In a significant move to direct credit flow to essential sectors, all commercial banks were advised in 1980 to achieve a target of 40% of their aggregate bank advances for priority sector lending. The deadline set for achieving this crucial milestone was 1985, which also included the introduction of specific sub-targets for agriculture and weaker sections.

Oct/Nov 2024

3. The revised Master Directions on Priority Sector Lending (PSL), which updated the targets and classification, were issued by the RBI in which month and year?
(A) August 2019
(B) March 2020
(C) September 2020
(D) April 2021

Ans :

(C) September 2020
The guidelines governing Priority Sector Lending have undergone periodic changes to align with evolving economic needs. The most recent comprehensive revision was encapsulated in the Master Directions – Priority Sector Lending (PSL) – Targets and Classification, which were officially issued by the Reserve Bank of India in September 2020 to provide updated instructions to banks.

May/June 2012

4. The Priority Sector Lending targets and sub-targets are applicable to various banks. Which of the following bank types is explicitly excluded from these regulations?
(A) Regional Rural Banks (RRBs)
(B) Small Finance Banks (SFBs)
(C) Primary (Urban) Co-operative Banks (UCBs)
(D) Salary Earners' Banks

Ans :

(D) Salary Earners' Banks
The Priority Sector Lending framework is broadly applicable across the banking spectrum to ensure credit flow to targeted sectors. It covers every commercial bank, including Regional Rural Banks (RRBs), Small Finance Banks (SFBs), Local Area Banks (LABs), and Primary (Urban) Co-operative Banks (UCBs). However, Salary Earners' Banks are specifically exempted from these PSL mandates.

Oct/Nov 2009

5. What is the total Priority Sector Lending target for Domestic Commercial Banks (excluding RRBs &

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Oct/Nov 2012

60. Consider the following case: Mr. Ajay, a salaried professional, has a credit card with a ₹2 lakh limit. In a billing cycle, his outstanding amount is ₹50,000. The minimum amount due is ₹2,500. He pays ₹10,000 before the due date. He believes that interest will be charged only on the remaining balance of ₹40,000. Is Mr. Ajay's understanding of how interest will be calculated correct?

(A) Yes, interest is charged only on the balance remaining after the partial payment

(B) No, interest will be charged on the full amount of ₹50,000 from the date of purchase/ transaction

(C) No, interest will be charged on the full amount of ₹50,000 from the date of payment

(D) Yes, because he paid more than the minimum amount due, no interest will be charged

Ans :

(B) No, interest will be charged on the full amount of ₹50,000 from the date of purchase/transaction This is a common misconception. The interest-free period is only applicable if the total outstanding amount is paid in full by the due date. If only a part of the bill is paid, even if it is more than the minimum amount due, the interest-free benefit is lost. Interest is then calculated on the entire outstanding amount from the respective transaction dates.

NODIA

This gives customers adequate time to evaluate the change and decide their course of action.

May/June 2016

57. The following text describes tokenization: "Tokenisation refers to replacement of actual card details with an alternate code called the "token", which shall be unique for a combination of card, token requestor (i.e. the entity which accepts request from the customer for tokenisation of a card and passes it on to the card network to issue a corresponding token) and the device." Based on this text, what is the specific role of a "token requestor"?

(A) It is the card-issuing bank that approves the transaction
(B) It is the customer who owns the credit card
(C) It is the entity that accepts the customer's request for tokenisation and forwards it to the card network
(D) It is the card network (like Visa or MasterCard) that generates the token

Ans :

(C) It is the entity that accepts the customer's request for tokenisation and forwards it to the card network
The provided text gives a clear definition of a token requestor. It is an intermediary entity that receives a request from a customer to have their card tokenised for a particular use (e.g., on a merchant's app). This entity then securely passes this request on to the relevant card payment network to generate the actual token.

Oct/Nov 2013

58. Consider the following case: A customer, Ms. Priya, applies for a home loan of ₹40 lakh to purchase a flat costing ₹55 lakh. The bank sanctions the loan but insists that the disbursal will only happen in parts, corresponding to the construction milestones achieved by the builder, as verified by the bank's panel engineer. Ms. Priya requests a lumpsum disbursal to the builder. Is the bank's stance on linking disbursal to construction stages appropriate?

(A) Yes, disbursal for under-construction properties should be closely linked to the stages of construction
(B) No, for ready-built houses, disbursal is always done in stages
(C) No, the bank should disburse the lumpsum amount as requested by the customer
(D) Yes, but only for loans above ₹75 lakh

Ans :

(A) Yes, disbursal for under-construction properties should be closely linked to the stages of construction
The bank's position is correct and aligns with prudent lending practices and regulatory advice. For incomplete or under-construction housing projects, disbursing the entire loan amount upfront is risky. Therefore, banks link the release of funds to the actual, verified progress of construction to safeguard their interests and those of the borrower against project delays or non-completion.

May/June 2007

59. The following text describes a payment process: "For hassle free, EMI payment banks also take NACH authorisation for all the EMIs, at the time of documentation itself. This obviates the need for bank reminding the borrower every month regarding EMI, and saves the borrower the trouble of making remittance every month. It also serves as a security feature for the lender." As per this text, what is a key benefit of NACH authorisation for the borrower?

(A) It reduces the interest rate on the loan
(B) It provides the borrower with a life insurance cover for the loan amount
(C) It allows the borrower to skip EMI payments without penalty
(D) It eliminates the need for the borrower to remember and manually make EMI payments each month

Ans :

(D) It eliminates the need for the borrower to remember and manually make EMI payments each month
The source text highlights the convenience that NACH authorisation offers to the borrower. By automating the EMI payment process, it saves the borrower "the trouble of making remittance every month." This means the borrower does not have to manually initiate the payment, reducing the chances of missed payments due to oversight and making the process hassle-free.

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SFBs) and foreign banks with 20 branches and above?
(A) 75% of ANBC or CEOBE, whichever is higher
(B) 18% of ANBC or CEOBE, whichever is higher
(C) 40% of ANBC or CEOBE, whichever is higher
(D) 12% of ANBC or CEOBE, whichever is higher

Ans :

(C) 40% of ANBC or CEOBE, whichever is higher
For Domestic Commercial Banks (excluding RRBs and SFBs) and foreign banks with a significant presence of 20 or more branches, the total Priority Sector target is set at 40%. This is calculated as a percentage of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever amount is higher.

May/June 2023

6. For foreign banks with fewer than 20 branches, what is the maximum percentage of ANBC or CEOBE that can be in the form of lending to Exports to count towards their total 40% PSL target?
(A) 8%
(B) 32%
(C) 10%
(D) 40%

Ans :

(B) 32%
Foreign banks with less than 20 branches have a total priority sector target of 40% of ANBC or CEOBE. Within this, a significant portion, up to 32%, can be achieved through lending to the export sector. The remaining balance of at least 8% must be directed towards any of the other specified priority sectors to meet the overall target.

Oct/Nov 2016

7. What is the total Priority Sector Lending target for Regional Rural Banks (RRBs)?
(A) 40% of ANBC or CEOBE, whichever is higher
(B) 60% of ANBC or CEOBE, whichever is higher
(C) 100% of ANBC or CEOBE, whichever is higher
(D) 75% of ANBC or CEOBE, whichever is higher

Ans :

(D) 75% of ANBC or CEOBE, whichever is higher
Regional Rural Banks (RRBs) have a significantly higher Priority Sector Lending target compared to commercial banks, reflecting their mandate for rural development. They are required to ensure that their lending to the priority sector constitutes 75% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher.

May/June 2018

8. For Regional Rural Banks (RRBs), lending to which of the following categories is capped for priority sector achievement?
(A) Medium Enterprises, Social Infrastructure, and Renewable Energy
(B) Agriculture and Micro Enterprises
(C) Weaker Sections and Small & Marginal Farmers
(D) Export Credit and Housing

Ans :

(A) Medium Enterprises, Social Infrastructure, and Renewable Energy
While RRBs have a high overall PSL target of 75%, there is a specific restriction on certain categories. Their lending to Medium Enterprises, Social Infrastructure, and Renewable Energy is eligible for priority sector classification, but the achievement under these categories is collectively reckoned only up to a maximum of 15% of their ANBC.

Oct/Nov 2007

9. What is the total Priority Sector Lending target for Small Finance Banks (SFBs)?
(A) 40% of ANBC or CEOBE, whichever is higher
(B) 50% of ANBC or CEOBE, whichever is higher
(C) 75% of ANBC or CEOBE, whichever is higher
(D) 60% of ANBC or CEOBE, whichever is higher

Ans :

(C) 75% of ANBC or CEOBE, whichever is higher
Similar to Regional Rural Banks, Small Finance Banks (SFBs) are mandated to maintain a high level of lending to the priority sector. Their total PSL target is set at 75% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher, aligning with their objective of financial inclusion.

May/June 2010

10. For Domestic Commercial Banks, RRBs, and SFBs, what is the sub-target for lending to Agriculture?

10%. As per the phased implementation schedule provided for banks (excluding UCBs), the specific target for the financial year 2022-23 was set at 9.5% of ANBC or CEOBE. This incremental approach helps banks align their lending portfolios over time.

May/June 2016

20. As per the phased implementation, what was the Weaker Sections target (for banks other than RRBs which have a fixed 15% target) for the financial year 2023-24?
(A) 12%
(B) 11%
(C) 11.5%
(D) 15%

Ans :

(A) 12%
The sub-target for lending to Weaker Sections is also being implemented in a phased manner for applicable banks, ultimately reaching 12%. For the financial year 2023-24, the target was set at 12%. This final step in the phased schedule brings the target to its terminal level as per the revised guidelines for these banks.

Oct/Nov 2022

21. For the financial year 2021-22, what was the applicable target for lending to Non-Corporate Farmers (NCFs) for all domestic banks (other than UCBs)?
(A) 10.00% of ANBC or CEOBE
(B) 13.50% of ANBC or CEOBE
(C) 18.00% of ANBC or CEOBE
(D) 12.73% of ANBC or CEOBE

Ans :

(D) 12.73% of ANBC or CEOBE
A specific requirement exists for domestic banks (excluding UCBs) and foreign banks with over 20 branches regarding lending to Non-Corporate Farmers (NCFs). For the fiscal year 2021-22, the applicable target was set at 12.73% of ANBC or CEOBE, which was based on the system-wide average of the last three years' achievement.

May/June 2014

22. What is the formula to calculate Net Bank Credit (NBC) for the purpose of priority sector computation?
(A) Bank Credit in India + Bills Rediscounted with RBI
(B) Bank Credit in India – Bills Rediscounted with RBI and other approved FIs
(C) Bank Credit in India – Provisions and Accrued Interest
(D) Bank Credit in India + Investments in Non-SLR bonds

Ans :

(B) Bank Credit in India – Bills Rediscounted with RBI and other approved FIs
Net Bank Credit (NBC) forms the base for calculating Adjusted Net Bank Credit (ANBC). It is derived by taking the total 'Bank Credit in India' as prescribed in Form 'A' under Section 42(2) of the RBI Act, 1934, and subtracting the 'Bills Rediscounted with RBI and other approved Financial Institutions'. This gives the net credit extended by the bank.

Oct/Nov 2019

23. In the computation of Adjusted Net Bank Credit (ANBC), which of the following items is ADDED to Net Bank Credit (NBC)?
(A) Eligible amount for exemptions on issuance of long-term bonds for infrastructure.
(B) Investments made by PSBs in Recapitalization Bonds.
(C) Outstanding Deposits under RIDF and other eligible funds.
(D) Advances extended against incremental FCNR(B)/NRE deposits.

Ans :

(C) Outstanding Deposits under RIDF and other eligible funds.
The formula for ANBC involves several adjustments to Net Bank Credit (NBC). Outstanding deposits placed by a bank under the Rural Infrastructure Development Fund (RIDF) and other similar funds with NABARD, NHB, SIDBI, and MUDRA due to PSL shortfalls, along with outstanding PSLCs, are added back to the NBC figure to arrive at the ANBC.

May/June 2009

24. Which of the following statements is correct regarding the computation of Net Bank Credit (NBC) for priority sector purposes?
(A) Banks should deduct provisions for bad debts and accrued interest from NBC.
(B) Banks should add back provisions for bad debts to NBC.

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(A) Foreign banks with less than 20 branches
(B) Small Finance Banks
(C) Regional Rural Banks
(D) Domestic commercial banks

Ans :

(A) Foreign banks with less than 20 branches
While foreign banks with less than 20 branches have an overall 40% PSL target, they are not subject to the specific, granular sub-targets prescribed for Agriculture, Micro Enterprises, and Weaker Sections. Their requirement is to lend a minimum of 8% to 'any other priority sector' besides the up to 32% allowed for the export sector.

May/June 2007

16. What is the ultimate total Priority Sector Lending target for Primary Urban Co-operative Banks (UCBs), and by what date is it to be achieved?
(A) 60% by March 31, 2023
(B) 75% by March 31, 2024
(C) 75% by March 31, 2023
(D) 60% by March 31, 2024

Ans :

(B) 75% by March 31, 2024
Primary Urban Co-operative Banks (UCBs) are required to progressively increase their Priority Sector Lending. The target, which started at 40%, is set to be increased in phases to ultimately reach 75% of ANBC or CEOBE, whichever is higher. The final deadline for achieving this 75% target is stipulated as March 31, 2024.

Oct/Nov 2025

17. Based on the provided table for the phased increase of PSL targets for Primary Urban Co-operative Banks:

Milestones Date	PSL Target (%)
March 31, 2020	40%
March 31, 2021	45%
March 31, 2022	50%
March 31, 2023	60%
March 31, 2024	75%

What was the stipulated PSL target for UCBs to be achieved by March 31, 2022?
(A) 45%
(B) 50%
(C) 60%
(D) 75%

Ans :

(B) 50%
The guidelines for Primary Urban Co-operative Banks outline a clear, phased roadmap for increasing their priority sector lending. According to the specified milestones, the target was set to increase from 45% in 2021 to 50% of ANBC or CEOBE by the end of the financial year on March 31, 2022, as part of the journey towards the 75% goal.

May/June 2019

18. What are the PSL sub-targets for Micro Enterprises and Weaker Sections for Primary Urban Co-operative Banks (UCBs)?
(A) 7.5% for Micro Enterprises and 12% for Weaker Sections
(B) 10% for Micro Enterprises and 15% for Weaker Sections
(C) 7.5% for Micro Enterprises and 15% for Weaker Sections
(D) 10% for Micro Enterprises and 12% for Weaker Sections

Ans :

(A) 7.5% for Micro Enterprises and 12% for Weaker Sections
Along with the overall PSL target, Primary Urban Co-operative Banks (UCBs) must also meet specific sub-targets. The target for advances to Micro Enterprises is set at 7.5% of ANBC or CEOBE. For advances to Weaker Sections, the sub-target is 12% of ANBC or CEOBE, ensuring focused credit flow to these segments.

Oct/Nov 2010

19. According to the phased implementation plan, what was the target for lending to Small and Marginal Farmers (excluding UCBs) for the financial year 2022-23?
(A) 9%
(B) 10%
(C) 9.5%
(D) 11.5%

Ans :

(C) 9.5%
The sub-target for lending to Small and Marginal Farmers is being increased gradually to reach

(A) 18% of ANBC or CEOBE, whichever is higher
(B) 10% of ANBC or CEOBE, whichever is higher
(C) 12% of ANBC or CEOBE, whichever is higher
(D) 15% of ANBC or CEOBE, whichever is higher

Ans :

(A) 18% of ANBC or CEOBE, whichever is higher
A specific sub-target is prescribed for the agriculture sector to ensure adequate credit flow. For Domestic Commercial Banks, Regional Rural Banks, and Small Finance Banks, this sub-target is set at 18% of ANBC or CEOBE, whichever is higher. This is a crucial component of their overall Priority Sector Lending obligations, with a further sub-target for small and marginal farmers.

Oct/Nov 2014

11. What is the sub-target for lending to Small and Marginal Farmers (SMFs) for Domestic Commercial Banks, RRBs, and SFBs?
(A) 7.5% of ANBC or CEOBE
(B) 8% of ANBC or CEOBE
(C) 12% of ANBC or CEOBE
(D) 10% of ANBC or CEOBE

Ans :

(D) 10% of ANBC or CEOBE
Within the overall agriculture sub-target, there is a specific focus on the most vulnerable farmers. A sub-target of 10% of ANBC or CEOBE, whichever is higher, is prescribed for lending to Small and Marginal Farmers (SMFs). This target applies to Domestic Commercial Banks, RRBs, and SFBs and is being implemented in a phased manner.

May/June 2025

12. A Regional Rural Bank has an ANBC of ₹1,000 crore. It has lent ₹200 crore to Medium Enterprises, ₹50 crore to Social Infrastructure, and ₹50 crore to Renewable Energy. How much of this ₹300 crore lending will be reckoned for its Priority Sector achievement?
(A) ₹300 crore
(B) ₹150 crore
(C) ₹200 crore
(D) ₹75 crore

Ans :

(B) ₹150 crore
For RRBs, while the overall PSL target is 75% of ANBC, lending to Medium Enterprises, Social Infrastructure, and Renewable Energy is capped at 15% of ANBC for PSL achievement. In this case, 15% of ₹1,000 crore is ₹150 crore. Therefore, even though the bank lent ₹300 crore to these categories, only ₹150 crore will be counted.

Oct/Nov 2021

13. What is the priority sector sub-target for advances to Micro Enterprises for Domestic Commercial Banks, RRBs, and SFBs?
(A) 5% of ANBC or CEOBE, whichever is higher
(B) 10% of ANBC or CEOBE, whichever is higher
(C) 7.5% of ANBC or CEOBE, whichever is higher
(D) 12% of ANBC or CEOBE, whichever is higher

Ans :

(C) 7.5% of ANBC or CEOBE, whichever is higher
To support the growth of the smallest business units, a specific sub-target is set for lending to Micro Enterprises. All Domestic Commercial Banks, Regional Rural Banks, and Small Finance Banks are required to lend 7.5% of their ANBC or CEOBE, whichever is higher, to this crucial segment of the MSME sector.

May/June 2021

14. Identify the incorrect statement regarding the sub-targets for lending to Weaker Sections.
(A) The target for Domestic Commercial Banks is 12% of ANBC or CEOBE.
(B) The target for Small Finance Banks is 12% of ANBC or CEOBE.
(C) The target for Regional Rural Banks is 15% of ANBC or CEOBE.
(D) The target for Primary Urban Co-operative Banks is 15% of ANBC or CEOBE.

Ans :

(D) The target for Primary Urban Co-operative Banks is 15% of ANBC or CEOBE.
The sub-targets for Weaker Sections vary by bank type. It is 12% for Domestic Commercial Banks and Small Finance Banks, and 15% for Regional Rural Banks. However, for Primary Urban Co-operative Banks, the sub-target for advances to Weaker Sections is set at 12% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, not 15%.

Oct/Nov 2006

15. For which of the following bank types are the sub-targets for Agriculture, Micro Enterprises, and Weaker Sections listed as 'Not applicable'?

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(C) Banks should only deduct accrued interest, but not provisions, from NBC.
(D) Banks should not deduct provisions, accrued interest, etc., from NBC.

Ans :

(D) Banks should not deduct provisions, accrued interest, etc., from NBC.
A specific instruction clarifies how to treat certain accounting items when calculating Net Bank Credit (NBC). For the purpose of priority sector computation only, banks are explicitly directed not to deduct or net out any amounts such as provisions for bad and doubtful debts, accrued interest, or other similar items from the 'Bank Credit in India' figure.

Oct/Nov 2011

25. Consider the formula for ANBC for banks other than UCBs:
$ANBC = III + IV - (V + VI + VII) + VIII - IX + X$
Where:
III. = Net Bank Credit (NBC)
IV. = Outstanding Deposits under RIDF etc. + outstanding PSLCs
Which component, represented by Roman numeral VI, is subtracted during the calculation of ANBC?
(A) Advances against incremental FCNR (B)/ NRE deposits qualifying for exemption
(B) Investments in Recapitalization Bonds
(C) Face Value of securities under TLTRO 2.0
(D) Bonds/debentures in Non-SLR categories under HTM

Ans :

(A) Advances against incremental FCNR (B)/ NRE deposits qualifying for exemption
The ANBC formula adjusts the NBC for several items to arrive at the final figure for PSL target calculation. The item represented by Roman numeral VI, which is subtracted from the base, corresponds to the advances a bank has extended in India against incremental FCNR (B)/NRE deposits that qualify for CRR/SLR requirement exemptions as per specific RBI circulars.

May/June 2017

26. To address regional disparities in credit flow, districts are ranked and assigned a weightage for PSL achievement. What is the weightage for districts with a "Lower flow of Credit" (per capita PSL less than ₹6,000)?
(A) 90%
(B) 125%
(C) 100%
(D) 110%

Ans :

(B) 125%
A framework of incentives and disincentives is used to encourage lending in credit-deficient areas. For districts identified as having a "Lower flow of Credit," where the per capita priority sector credit is less than ₹6,000, a higher weightage of 125% is applied. This means every ₹100 lent in these districts is counted as ₹125 for PSL achievement.

Oct/Nov 2005

27. What is the weightage applied to Priority Sector Lending in districts where the per capita PSL flow is "Higher" (greater than ₹25,000)?
(A) 125%
(B) 100%
(C) 75%
(D) 90%

Ans :

(D) 90%
To disincentivize excessive credit concentration in already credit-saturated areas, a lower weightage is applied. In districts classified as having a "Higher flow of Credit," where the per capita PSL is greater than ₹25,000, a dis-incentivizing weightage of 90% is used. This means ₹100 of lending in these districts counts as only ₹90 towards PSL targets.

May/June 2020

28. Which of the following bank categories are exempted from the framework of adjustments for weights in PSL achievement based on district-level credit flow?
(A) RRBs, UCBs, LABs and foreign banks (including WoS)
(B) Domestic Commercial Banks only
(C) Small Finance Banks and Domestic Commercial Banks
(D) Foreign banks with more than 20 branches

Ans :

(A) RRBs, UCBs, LABs and foreign banks (including WoS)
The incentive and dis-incentive mechanism based on district-wise per capita credit flow is

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not universally applicable. A specific exemption is provided for Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), Local Area Banks (LABs), and all foreign banks, including Wholly Owned Subsidiaries (WoS), from this particular weightage adjustment framework for PSL achievement.

Oct/Nov 2015

29. Based on the table for 'Adjustments for weights in PSL Achievement':

Category of Districts	Per Capita PSL	Weightage
Lower flow of Credit	Less than ₹6,000	125%
Normal flow of credit	₹6,000 to ₹25,000	100%
Higher flow of Credit	Greater than ₹25,000	90%

If a bank lends ₹50 crore in a district where the per capita PSL is ₹15,000, what is the value of the loan that will be reckoned for PSL achievement?
(A) ₹45 crore
(B) ₹62.5 crore
(C) ₹50 crore
(D) ₹55 crore

Ans :

(C) ₹50 crore
According to the provided table, a district with a per capita PSL flow between ₹6,000 and ₹25,000 is classified as having a "Normal flow of credit." For such districts, the assigned weightage is 100%. Therefore, the actual amount lent, which is ₹50 crore in this case, will be reckoned as ₹50 crore for PSL achievement without any adjustment.

May/June 2013

30. Which of the following is NOT one of the eight specified categories of the Priority Sector?
(A) Large Scale Industries
(B) Renewable Energy
(C) Social Infrastructure
(D) Export Credit

Ans :

(A) Large Scale Industries
The Priority Sector framework comprises eight specific categories designed to channel credit to vital areas of the economy. These categories are Agriculture; MSME; Export Credit; Education; Housing; Social Infrastructure; Renewable Energy; and a residual category named 'Others'. Large Scale Industries do not form a part of this classification, as the focus is on smaller and developmental sectors.

Oct/Nov 2008

31. Under the 'Agriculture' category of PSL, what is the sanctioned limit per borrower from the banking system for loans classified under 'Agriculture Infrastructure'?
(A) ₹10 crore
(B) ₹50 crore
(C) ₹200 crore
(D) ₹100 crore

Ans :

(D) ₹100 crore
Within the agriculture priority sector category, loans for building agricultural infrastructure are encouraged. For a loan to be classified under 'Agriculture Infrastructure,' the sanctioned limit for a single borrower from the entire banking system is capped at ₹100 crore. This includes facilities like warehouses, cold storage chains, and soil conservation projects that support the broader agricultural ecosystem.

NODIA

May/June 2006

32. Which of the following activities is classified under 'Ancillary services' within the Agriculture priority sector category?
(A) Lending to NBFCs for on-lending to farmers
(B) Loans for food and agro processing
(C) Loans to individual farmers for crop cultivation
(D) Deposits with NABARD

Ans :

(B) Loans for food and agro processing
The 'Ancillary services' sub-category within Agriculture PSL covers activities that support the agricultural value chain beyond direct farming. This primarily includes loans for setting up and operating food and agro-processing units. It also covers other specified purposes that add value to agricultural produce, distinguishing it from direct farm credit or infrastructure development.

Oct/Nov 2017

33. Under the MSME category for Priority Sector Lending, factoring transactions are considered

eligible if they are on a 'with recourse' basis and meet what other specific condition?
(A) The 'debtor' is an MSME
(B) The transaction is facilitated by a public sector bank
(C) The 'assignor' is an MSME
(D) The value of the transaction exceeds ₹1 crore

Ans :

(C) The 'assignor' is an MSME
For a factoring transaction to be classified under the MSME priority sector, two key conditions must be met. Firstly, the transaction must be on a 'with recourse' basis, meaning the risk of non-payment by the debtor reverts to the assignor. Secondly, the assignor, which is the entity selling its receivables, must be a Micro, Small, or Medium Enterprise (MSME).

May/June 2008

34. For Domestic banks, the classification of incremental export credit as PSL is subject to what sanctioned limit per borrower?
(A) ₹10 crore
(B) ₹25 crore
(C) ₹100 crore
(D) ₹40 crore

Ans :

(D) ₹40 crore
For domestic banks, SFBs, and UCBs, incremental export credit over the corresponding date of the preceding year is eligible for PSL classification up to 2% of ANBC or CEOBE. However, this classification is also subject to a cap on the loan size. The sanctioned limit for such export credit facilities per borrower cannot exceed ₹40 crore.

Oct/Nov 2013

35. Based on the table for Export Credit classification:

Bank Type	PSL Classification Rule
Domestic banks / WoS of Foreign banks/ SFBs/ UCBs	Incremental export credit over corresponding date of the preceding year, up to 2% of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to ₹40 crore per borrower.
Foreign banks with 20 branches and above	Incremental export credit over corresponding date of the preceding year, up to 2% of ANBC or CEOBE whichever is higher
Foreign banks with less than 20 branches	Export credit up to 32% of ANBC or CEOBE whichever is higher.

For a foreign bank with 25 branches, what is the rule for classifying export credit as PSL?
(A) Incremental export credit up to 2% of ANBC, without a per-borrower limit.
(B) Export credit up to 32% of ANBC.
(C) Incremental export credit up to 2% of ANBC, subject to a ₹40 crore limit per borrower.
(D) Export credit is not applicable for PSL for this bank category.

Ans :

(A) Incremental export credit up to 2% of ANBC, without a per-borrower limit.
The table specifies different rules for different bank types. For foreign banks with 20 branches and above, the rule is to count incremental export credit over the previous year, up to 2% of ANBC or CEOBE. Unlike domestic banks, the text for this category does not mention the per-borrower sanctioned limit of ₹40 crore.

May/June 2015

36. Which types of banks are explicitly mentioned as not being subject to the 'Export Credit' category of Priority Sector Lending?
(A) Small Finance Banks and UCBs
(B) Regional Rural Banks and Local Area Banks
(C) Domestic Commercial Banks and Foreign Banks
(D) Only Primary (Urban) Co-operative Banks

Ans :

(B) Regional Rural Banks and Local Area Banks
While Export Credit is a distinct category under Priority Sector Lending for most banks, the guidelines specify that it is not applicable to certain types of banks. Specifically, Regional Rural Banks (RRBs) and Local Area Banks (LABs) are excluded from having Export Credit classified as a priority sector advance.

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The classification of farmers is crucial for determining credit limits and other scheme benefits. Under the Kisan Credit Card (KCC) scheme, a 'Marginal Farmer' is specifically defined as a farmer who has a landholding of up to 1 hectare. This distinction helps in tailoring financial products and support to the needs of different farmer categories.

May/June 2017

10. How is a 'Small Farmer' defined in the context of the KCC scheme?

(A) A farmer with a landholding of more than 1 hectare and up to 2 hectares
(B) A farmer with a landholding of up to 1 hectare
(C) A farmer with a landholding of more than 2 hectares
(D) A farmer with a landholding of less than 5 acres

Ans :

(A) A farmer with a landholding of more than 1 hectare and up to 2 hectares
The KCC scheme categorizes farmers to apply appropriate guidelines for credit assessment. A 'Small Farmer' is distinctly defined as a farmer who possesses a landholding of more than 1 hectare but not exceeding 2 hectares. This classification is different from a 'Marginal Farmer', who holds land up to 1 hectare.

Oct/Nov 2008

11. Which entity is responsible for determining the scale of finance for different crops in a district for KCC limit fixation?

(A) State Level Bankers' Committee (SLBC)
(B) Individual Bank Branches
(C) National Bank for Agriculture and Rural Development (NABARD)
(D) District Level Technical Committee (DLTC)

Ans :

(D) District Level Technical Committee (DLTC)
For uniformity in credit assessment under the KCC scheme, the scale of finance, which represents the cultivation cost per hectare for various crops, is determined at the district level. This responsibility is vested with the District Level Technical Committee (DLTC), ensuring that the determined costs reflect local agricultural conditions and input prices accurately.

May/June 2005

12. What is the formula for calculating the short-term KCC limit for the first year for a farmer raising a single crop?

(A) Scale of finance × Area cultivated + 10% for post-harvest needs + 10% for farm asset maintenance
(B) Scale of finance × Area cultivated + 10% for post-harvest/household needs + 20% for farm asset maintenance & insurance
(C) Scale of finance × Area cultivated + 20% for post-harvest needs + 10% for farm asset maintenance
(D) Scale of finance × Area cultivated + 20% for post-harvest/household needs + 20% for farm asset maintenance & insurance

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Ans :

(B) Scale of finance × Area cultivated + 10% for post-harvest/household needs + 20% for farm asset maintenance & insurance
The first-year short-term limit is calculated by multiplying the DLTC-approved scale of finance by the cultivated area. To this, an additional 10% of the limit is added for post-harvest, household, and consumption needs, and another 20% is added for repairs and maintenance of farm assets, plus crop/accident insurance, creating a comprehensive credit limit.

Oct/Nov 2016

13. When calculating the KCC limit for the second and subsequent years, what percentage is added annually to the crop cultivation limit to account for cost escalation?

(A) 5%
(B) 15%
(C) 10%
(D) 20%

Ans :

(C) 10%
To account for inflation and rising input costs, the KCC scheme incorporates a provision for annual enhancement of the credit limit. For the second and subsequent years (up to the fifth year), an additional 10% of the previous year's limit for crop cultivation is added to cover the escalation in the scale of finance.

May/June 2024

14. What constitutes the Maximum Permissible Limit (MPL) for a Kisan Credit Card?

The 'Others' category of Priority Sector includes specific borrower types that are targeted for support. Among these are loans to start-ups, provided they are engaged in activities outside of the traditional Agriculture or MSME sectors. This helps promote innovation and entrepreneurship in new and emerging fields that are not covered by other PSL categories.

May/June 2024

42. Consider the following types of loans:
1. Loans to individuals for educational purposes.
2. Loans to governmental agencies for rehabilitation of slum dwellers.
3. Loans for biomass-based power generators.

Which of the above loans are classifiable under Priority Sector?
(A) 1 and 2 only
(B) 1, 2, and 3
(C) 2 and 3 only
(D) 1 and 3 only

Ans :

(B) 1, 2, and 3
All three loan types are eligible for Priority Sector classification under different categories. Loans for educational purposes fall under the 'Education' category. Loans to government agencies for slum dweller rehabilitation fall under the 'Housing' category. Loans for biomass-based power generators are classified under the 'Renewable Energy' category, making all three statements correct.

Oct/Nov 2018

43. For artisans, village, and cottage industries to be classified under the 'Weaker Sections' category, what is the maximum individual credit limit?
(A) ₹50,000
(B) ₹2 lakh
(C) ₹1 lakh
(D) ₹5 lakh

Ans :

(C) ₹1 lakh
To ensure that credit under the 'Weaker Sections' category reaches the intended small-scale producers, a credit limit is specified. For borrowers who are artisans or are engaged in village and cottage industries, their individual credit limits must not exceed ₹1 lakh for their loans to be classified under the Weaker Sections category.

May/June 2005

44. A bank provides a loan of ₹1.5 lakh to an individual woman beneficiary for setting up a small tailoring business. Under which Priority Sector category can this loan be classified for sub-target purposes?
(A) It can be classified under the Weaker Sections category.
(B) It can be classified under both Weaker Sections and Micro Enterprises.
(C) It cannot be classified under any Priority Sector category.
(D) It can be classified under the Micro Enterprises category but not Weaker Sections.

Ans :

(D) It can be classified under the Micro Enterprises category but not Weaker Sections.
While the loan would qualify under Micro Enterprises, it does not meet the specific criterion for the 'Weaker Sections' category based on being an individual woman beneficiary. The limit for loans to individual women beneficiaries to be classified under Weaker Sections is ₹1 lakh per borrower. Since this loan is for ₹1.5 lakh, it exceeds that specific limit.

Oct/Nov 2024

45. Excerpt from 'Weaker Sections' category: "Priority sector loans to the following borrowers are considered under Weaker Sections category:- (a) Small and marginal farmers; ... (h) Distressed persons other than farmers with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders; (i) Individual women beneficiaries up to ₹1 lakh per borrower;" Which of the following borrowers would NOT automatically qualify under the Weaker Sections category?
(A) A person taking a ₹2 lakh loan to prepay a moneylender
(B) A small farmer
(C) A woman beneficiary taking a loan of ₹75,000
(D) A marginal farmer

Ans :

(A) A person taking a ₹2 lakh loan to prepay a moneylender
The list of Weaker Sections includes specific definitions and limits. Small and marginal

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farmers qualify irrespective of loan amount. An individual woman beneficiary qualifies if the loan is up to ₹1 lakh. However, for a distressed person (non-farmer) taking a loan to prepay a non-institutional lender, the loan amount must not exceed ₹1 lakh to qualify under this category.

May/June 2012

46. Assertion (A): In the state of Punjab, loans to the notified Sikh minority community are not classified under the 'minority communities' sub-category of Weaker Sections.
Reason (R): In states where a notified minority community is, in fact, in the majority, lending to that community is excluded from this specific classification.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The reason (R) correctly states the specific rule that in states/UTs like Punjab, Jammu & Kashmir, Meghalaya etc., where a nationally notified minority is locally in majority, they are excluded from this PSL category. Assertion (A) is a correct application of this rule, as the Sikh community is in majority in Punjab, providing a valid example.

Oct/Nov 2009

47. Overdrafts availed by whom can be classified under the Weaker Sections category, subject to limits prescribed by the Department of Financial Services?
(A) Corporate salary account holders
(B) PMJDY account holders
(C) High Net-worth Individuals
(D) Members of Parliament

Ans :

(B) PMJDY account holders
To promote financial inclusion and provide small credit facilities to the unbanked, a special provision has been made. Overdrafts availed by Pradhan Mantri Jan-Dhan Yojana (PMJDY) account holders are eligible for classification under the Weaker Sections category. This is subject to the specific limits and conditions that are prescribed from time to time by the Department of Financial Services.

May/June 2023

48. What is the consequence for a bank that has a shortfall in meeting its Priority Sector Lending targets?
(A) The bank is allocated amounts for contribution to the RIDF or other similar funds.
(B) The bank is charged a monetary penalty equal to the shortfall.
(C) The bank's license is suspended for a temporary period.
(D) The bank's senior management faces a reduction in remuneration.

Ans :

(A) The bank is allocated amounts for contribution to the RIDF or other similar funds.
Instead of a direct penalty, a mechanism is in place to channel funds towards developmental activities. Banks with a shortfall in their PSL targets are required to contribute an amount equivalent to the shortfall to the Rural Infrastructure Development Fund (RIDF) with NABARD, or other similar funds established with NHB, SIDBI, or MUDRA Ltd.

Oct/Nov 2016

49. A bank levies an ad-hoc inspection charge of ₹300 on a priority sector loan of ₹20,000 granted to a small vegetable vendor. Is this action by the bank permissible under RBI guidelines?
(A) Yes, as inspection charges are allowed on all loans.
(B) Yes, but the charge should not exceed 1% of the loan amount.
(C) No, because no loan related and adhoc service charges should be levied on PSL up to ₹25,000.
(D) No, because the charge can only be levied with prior approval from the borrower.

Ans :

(C) No, because no loan related and adhoc service charges should be levied on PSL up to ₹25,000.
To make small-ticket priority sector loans more affordable for borrowers, RBI has issued specific guidelines on charges. For all priority sector loans up to ₹25,000, banks are prohibited from levying any loan-related and ad-hoc service charges or

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inspection charges. Therefore, the bank's action of levying a ₹300 charge on a ₹20,000 loan is not permissible.

May/June 2018

50. From which date were Urban Co-operative Banks (UCBs) also required to contribute to RIDF or other equivalent funds in case of a shortfall in their PSL targets?
(A) March 31, 2021
(B) March 31, 2020
(C) September 30, 2020
(D) April 1, 2022

Ans :

(A) March 31, 2021
The requirement to contribute to developmental funds like RIDF for PSL shortfall was extended to Urban Co-operative Banks to bring them on par with commercial banks. This mandate became effective from March 31, 2021. UCBs (excluding those under all-inclusive directions) with a shortfall from this date onwards are required to make such contributions.

Oct/Nov 2007

51. Investments by banks in securitised assets are eligible for PSL classification, but transactions with underlying assets of which type are explicitly not eligible?
(A) Housing loans
(B) Vehicle loans
(C) Loans against gold jewellery
(D) Education loans

Ans :

(C) Loans against gold jewellery
While banks can invest in securitised assets (pools of loans) to meet PSL targets, there are specific exclusions. The guidelines explicitly state that purchase, assignment, or investment transactions by banks with NBFCs are not eligible for priority sector status if the underlying assets of the securitised pool consist of loans against gold jewellery.

May/June 2010

52. A bank purchases a pool of priority sector assets from an NBFC through direct assignment for ₹105 crore, where the principal outstanding of the underlying loans is ₹100 crore and ₹5 crore is the premium. What amount should the bank report for its PSL achievement?
(A) ₹105 crore
(B) ₹100 crore
(C) ₹95 crore
(D) ₹102.5 crore

Ans :

(B) ₹100 crore
When a bank acquires assets through direct assignment or outright purchase, the reporting guidelines are very specific to reflect the actual credit to the priority sector. The bank must report only the outstanding amount actually disbursed to the priority sector borrowers, which is ₹100 crore. The premium paid to the seller, ₹5 crore, cannot be included.

Oct/Nov 2014

53. Inter Bank Participation Certificates (IBPCs) bought by a bank are eligible for PSL classification. Which type of bank is mentioned as not being able to use this particular instrument for PSL?
(A) Regional Rural Banks (RRBs)
(B) Small Finance Banks (SFBs)
(C) Primary (Urban) Co-operative Banks (UCBs)
(D) Foreign Banks

Ans :

(C) Primary (Urban) Co-operative Banks (UCBs)
The guidelines on various modes of achieving PSL targets specify applicability for different bank types. In the context of Inter Bank Participation Certificates (IBPCs), it is explicitly stated that this instrument is not applicable to Primary (Urban) Co-operative Banks (UCBs). Other banks like commercial banks and RRBs can use IBPCs subject to conditions.

May/June 2025

54. A Regional Rural Bank (RRB) has PSL advances equivalent to 85% of its ANBC. Can this RRB issue Inter Bank Participation Certificates (IBPCs) to a Scheduled Commercial Bank, and if so, to what extent?
(A) No, RRBs cannot issue IBPCs.
(B) Yes, it can issue IBPCs for its entire PSL portfolio of 85%.
(C) No, because its PSL achievement is already above the target.
(D) Yes, it can issue IBPCs in respect of its PSL advances in excess of 75%.

Ans :

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CHAPTER 37
Agricultural Finance

Oct/Nov 2014

1. According to the classification based on the credit period, what is the maximum repayment period for loans to be categorized as short-term agricultural loans?
(A) Up to 12 months
(B) Up to 18 months
(C) Up to 24 months
(D) Up to 36 months

Ans :

(B) Up to 18 months
Short-term loans in agricultural finance are defined by their repayment tenure. These loans, which include facilities like crop loans and Kisan Credit Cards for raising crops, are structured to be repayable within a period of up to 18 months, aligning with the typical agricultural production cycle and immediate financial needs of farmers.

May/June 2022

2. Which of the following is NOT an example of a medium/long-term loan purpose in agriculture?
(A) Loans against gold ornaments for agricultural purposes
(B) Farm mechanization
(C) Minor irrigation projects
(D) Development of plantations and horticulture

Ans :

(A) Loans against gold ornaments for agricultural purposes
Medium/long-term loans have a repayment period of more than 36 months and are used for capital investments. These include farm mechanization, minor irrigation, and horticulture. In contrast, loans against gold ornaments for agricultural purposes are classified as short-term loans, which have a repayment period of up to 18 months.

Oct/Nov 2025

3. Which of the following activities is classified under indirect finance to agriculture?
(A) Loans for dairy farming, poultry, and sheep rearing activities
(B) Loans for farm/land development, including soil conservation
(C) Loans to Electricity Boards for energising agricultural pump sets
(D) Loans for purchase of inputs like seeds and fertilizers under a credit scheme

Ans :

(C) Loans to Electricity Boards for energising agricultural pump sets
Indirect finance involves lending to intermediaries or for activities that support agriculture, rather than directly to farmers for cultivation. Loans to Electricity Boards for energising pump sets under the Rural Electrification Corporation (REC) Scheme fall into this category, as they facilitate agricultural operations without being a direct loan to the cultivator for farm activities.

May/June 2008

4. What is the primary purpose of a crop loan provided to agriculturists?
(A) To finance the purchase of land for cultivation
(B) To fund long-term investments like farm mechanization
(C) To construct storage facilities in non-producing areas
(D) To meet expenses for raising seasonal crops

Ans :

(D) To meet expenses for raising seasonal crops
A crop loan is a short-term credit facility designed specifically to help farmers cover the operational costs associated with raising seasonal crops. These expenses include the cost of seeds, fertilisers, pesticides, irrigation charges, and labour. The loan amount is determined based on the scale of finance for the specific crop being cultivated.

Oct/Nov 2006

5. Who among the following are eligible for crop loans?
(A) Only agriculturists who own the land they are currently cultivating

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the difference between the actual interest rate charged by the lending bank and a ceiling rate of 7%, ensuring affordable credit for these groups.

Oct/Nov 2025

59. Statement I: The Government provides an interest subvention of 2% p.a. to banks for short-term production credit up to ₹3 lakhs provided to farmers.

Statement II: The NRLM scheme provides interest subvention to make the effective rate for women SHGs 9%.

Which of the following is correct?

(A) Both Statement I and Statement II are correct.

(B) Both Statement I and Statement II are incorrect.

(C) Statement I is correct and Statement II is incorrect.

(D) Statement I is incorrect and Statement II is correct.

Ans :

(C) Statement I is correct and Statement II is incorrect.

The government provides a 2% interest subvention to banks on short-term farm credit up to ₹3 lakhs, making Statement I correct. The NRLM scheme aims for an effective rate of 7% for women SHGs, not 9%, making Statement II incorrect.

May/June 2019

60. Identify the correct pair of a Priority Sector sub-category and its corresponding lending limit or condition.

(A) Artisans/village industries under Weaker Sections : Individual credit limits not exceeding ₹1 lakh

(B) Agriculture Infrastructure : Sanctioned limit of ₹50 crore per borrower

(C) Individual women beneficiaries under Weaker Sections : Loan up to ₹2 lakh per borrower

(D) On-lending via NBFCs : Capped at 10% of total PSL

Ans :

(A) Artisans/village industries under Weaker Sections : Individual credit limits not exceeding ₹1 lakh

The guidelines specify a credit limit of ₹1 lakh for loans to artisans, village, and cottage industries to be classified under the Weaker Sections category. The limit for Agriculture Infrastructure is ₹100 crore, for women beneficiaries under Weaker Sections it is ₹1 lakh, and the cap for on-lending via NBFCs is 5% of total PSL.

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Oct/Nov 2012

37. Which of the following is NOT listed as an eligible activity under the 'Housing' category of Priority Sector Lending?
(A) Loans to individuals for purchase or construction of a dwelling unit.
(B) Loans for commercial real estate projects.
(C) Loans to a governmental agency for construction of dwelling units.
(D) Outstanding deposits with the National Housing Bank (NHB).

Ans :

(B) Loans for commercial real estate projects.
The housing category under PSL is focused on residential housing, particularly for individuals and affordable housing schemes. Eligible activities include loans to individuals for purchase, construction, or repair of homes, loans to government agencies for housing projects or slum rehabilitation, loans for affordable housing projects, and deposits with NHB. Commercial real estate projects are excluded.

May/June 2011

38. Loans for which of the following purposes are classified under the 'Social Infrastructure' category of Priority Sector?
(A) Building schools, drinking water facilities, and sanitation facilities
(B) Building large corporate hospitals in metro cities
(C) Construction of shopping malls and entertainment centers
(D) Funding large-scale power generation plants

Ans :

(A) Building schools, drinking water facilities, and sanitation facilities
The 'Social Infrastructure' category under PSL targets the creation of essential public services. It specifically includes loans for building schools, providing drinking water facilities, and constructing sanitation facilities. It also covers credit to Micro Finance Institutions (MFIs) for on-lending for these specific purposes, focusing on community-level infrastructure rather than large commercial projects.

Oct/Nov 2020

39. Lending for solar based power generators, wind mills, and micro-hydel plants falls under which category of Priority Sector?
(A) Agriculture Infrastructure
(B) Social Infrastructure
(C) Renewable Energy
(D) Micro, Small and Medium Enterprises (MSME)

Ans :

(C) Renewable Energy
To promote clean energy, a specific Priority Sector category for 'Renewable Energy' has been established. This category includes loans for a variety of non-conventional energy projects such as solar-based power generators, biomass-based power generators, wind mills, and micro-hydel plants. It also covers non-conventional energy-based public utilities like street lighting systems.

May/June 2022

40. Under the 'Others' category of PSL, loans can be given to SHGs/JLGs for various purposes. Which of the following is an eligible purpose mentioned?
(A) Construction or repair of a house
(B) Purchase of luxury goods
(C) Investment in stock markets
(D) Funding political campaigns

Ans :

(A) Construction or repair of a house
The 'Others' category provides a classification for certain specific types of loans that don't fit elsewhere. This includes loans to Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) for meeting social needs, for the construction or repair of a house, for the construction of toilets, or for undertaking any viable common economic activity.

Oct/Nov 2023

41. Loans to which of the following entities are classified under the 'Others' category of Priority Sector?
(A) Large corporations for working capital
(B) High Net-worth Individuals for personal consumption
(C) Government bodies for infrastructure development
(D) Start-ups engaged in activities other than Agriculture or MSME

Ans :

(D) Start-ups engaged in activities other than Agriculture or MSME

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(B) Only specialized institutions undertaking large-scale spraying operations
(C) All individuals who actually cultivate the land, including owners, tenants, and sharecroppers
(D) Only State Corporations lending to the designated weaker section

Ans :

(C) All individuals who actually cultivate the land, including owners, tenants, and sharecroppers
Eligibility for crop loans is broad and focuses on the actual cultivator of the land, not necessarily the owner. This includes agriculturists, tenant farmers who lease the land, and sharecroppers who cultivate land in exchange for a share of the produce. This inclusive approach ensures that credit is available to those directly engaged in farming.

May/June 2013

6. The Kisan Credit Card (KCC) scheme is designed to provide credit to farmers for which of the following purposes?
(A) Exclusively for the purchase of inputs for seasonal crop cultivation
(B) For cultivation inputs, plus investments in allied and non-farm activities
(C) Only for investment in non-farm activities like small businesses
(D) Solely for post-harvest expenses and immediate household consumption needs

Ans :

(B) For cultivation inputs, plus investments in allied and non-farm activities
The Kisan Credit Card (KCC) scheme is a comprehensive credit facility. It is designed to provide farmers with financial support not only for purchasing agricultural inputs like seeds and fertilizers but also for making investments in allied activities such as dairy and poultry, as well as for funding relevant non-farm activities, offering a holistic credit solution.

Oct/Nov 2019

7. Which of the following is a key objective of the Kisan Credit Card (KCC) scheme?
(A) To provide credit exclusively for long-term agricultural investments
(B) To replace all forms of indirect finance in agriculture
(C) To finance only the distribution of fertilisers and pesticides
(D) To offer a single-window credit support for cultivation and other needs

Ans :

(D) To offer a single-window credit support for cultivation and other needs
A primary objective of the KCC scheme is to provide adequate and timely credit from the banking system through a single window. This covers a farmer's comprehensive needs, including cultivation expenses, post-harvest costs, household consumption requirements, and maintenance of farm assets, simplifying access to credit and ensuring its timely availability for various purposes.

May/June 2011

8. Identify the category of persons who are NOT explicitly listed as eligible to avail the KCC facility.
(A) Agri-input dealers and distributors
(B) Individual or Joint borrowers who are owner cultivators
(C) Tenant Farmers, Oral Lessees & Share Croppers
(D) Self Help Groups (SHGs) of Farmers

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Ans :

(A) Agri-input dealers and distributors
The KCC scheme's eligibility criteria focus on individuals and groups directly involved in cultivation and allied activities. This includes owner cultivators, tenant farmers, oral lessees, sharecroppers, and their collectives like Self Help Groups (SHGs) or Joint Liability Groups (JLGs). Agri-input dealers and distributors are not listed as eligible beneficiaries for this credit facility.

Oct/Nov 2021

9. According to the KCC scheme guidelines, how is a 'Marginal Farmer' categorized based on landholding?
(A) A farmer with a landholding of more than 1 hectare and up to 2 hectares
(B) A farmer with a landholding of more than 2 hectares and up to 5 hectares
(C) A farmer with a landholding of up to 1 hectare
(D) A farmer with a landholding of up to 2.5 acres

Ans :

(C) A farmer with a landholding of up to 1 hectare

(D) Yes, it can issue IBPCs in respect of its PSL advances in excess of 75%.
A specific provision allows Regional Rural Banks to monetize their surplus PSL advances. An RRB is permitted to issue IBPCs to Scheduled Commercial Banks, but only in respect of its priority sector advances that are in excess of its mandated target of 75% of ANBC. In this case, the RRB can issue IBPCs for the surplus 10% (85% - 75%).

Oct/Nov 2021

55. What is the maximum percentage of a bank's total Priority Sector Lending (PSL) that can be achieved through on-lending credit to NBFCs (including HFCs) on a quarterly average basis?
(A) 5%
(B) 2%
(C) 10%
(D) 15%

Ans :

(A) 5%
Banks are permitted to lend to Non-Banking Financial Companies (NBFCs), including Housing Finance Companies (HFCs), for the specific purpose of on-lending to priority sectors. However, this route for achieving PSL targets is capped. The credit extended through this channel is limited to a maximum of 5% of the bank's total Priority Sector Lending.

May/June 2021

56. Match the following PSL concepts (List-I) with their corresponding descriptions (List-II).

	List-I		List-II
P.	PSLC	1.	Instrument for risk-sharing purchase of PSL assets between banks.
Q.	IBPC	2.	A mechanism for banks to lend jointly with NBFCs at the facility level
R.	Co-origination	3.	Tradable certificates for over-achieved PSL without underlying asset transfer.
S.	Direct Assignment	4.	Outright purchase of a pool of PSL assets from another lender.

(A) P-3, Q-1, R-2, S-4
(B) P-4, Q-2, R-1, S-3
(C) P-3, Q-4, R-2, S-1
(D) P-1, Q-3, R-4, S-2

Ans :

(A) P-3, Q-1, R-2, S-4
PSLCs (Priority Sector Lending Certificates) are tradable instruments allowing banks to meet targets without transferring assets. IBPCs (Inter Bank Participation Certificates) involve the risk-sharing purchase of assets. Co-origination is a model for joint lending between banks and NBFCs. Direct Assignment is the outright purchase of a loan portfolio.

Oct/Nov 2006

57. The Interest Subvention Scheme for Crop Loans aims to ensure that farmers receive short-term credit at an effective interest rate of 7% per annum for loans up to what principal amount?
(A) ₹1 lakh
(B) ₹2 lakh
(C) ₹5 lakh
(D) ₹3 lakh

Ans :

(D) ₹3 lakh
To provide relief to farmers and reduce the cost of cultivation, the government has implemented an Interest Subvention Scheme. This scheme's objective is to make short-term crop loans available to farmers at a concessional effective interest rate of 7% per annum. This benefit is applicable for a principal loan amount up to a maximum of ₹3 lakh.

May/June 2007

58. The Interest Subvention scheme under the National Rural Livelihood Mission (NRLM) provides subvention for women SHGs based on the difference between which two rates?
(A) The rate charged by the bank and 7%
(B) The bank's MCLR and 7%
(C) The bank's EBLR and 7%
(D) The bank's base rate and 4%

Ans :

(A) The rate charged by the bank and 7%
The interest subvention scheme under NRLM is designed to provide credit to women Self-Help Groups (SHGs) at a concessional rate. The scheme provides for interest subvention equivalent to

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(A) The short-term loan limit calculated for the 1st year of the card's validity
(B) The sum total of the short-term loan limits calculated for all five years
(C) Only the estimated long-term loan requirement for capital investment purposes
(D) The 5th year short-term limit plus the estimated long-term loan requirement

Ans :

(D) The 5th year short-term limit plus the estimated long-term loan requirement
The Maximum Permissible Limit (MPL), which is treated as the overall Kisan Credit Card limit, is the aggregate of two components. It is determined by summing the short-term loan limit calculated for the fifth year (which includes all annual escalations) and the total estimated long-term loan requirement for investments over the card's tenure.

Oct/Nov 2010

15. Why is the KCC limit bifurcated into sub-limits for short-term cash credit and term loans?
(A) Because they have different interest rates and repayment norms
(B) To simplify the final loan application process for the farmer
(C) To allow for the withdrawal of the entire sanctioned limit at once
(D) To restrict the farmer from using funds for unapproved allied activities

Ans :

(A) Because they have different interest rates and repayment norms
The bifurcation of the KCC limit is a critical feature for proper loan management. Short-term crop loans and long-term investment loans have distinct characteristics, including different interest rate structures (like interest subvention on crop loans) and separate repayment schedules. Creating sub-limits ensures that each component is managed according to its specific terms and conditions.

May/June 2019

16. Read the following excerpt on the fixation of sub-limits for KCC and answer the question below.
"Short term loans and term loans are governed by different interest rates. Short term crop loans are covered under Interest Subvention Scheme/ Prompt Repayment Incentive scheme. Repayment schedule and norms are different for short term and term loans. The card limit is bifurcated into sub-limits for short term cash credit limit and term loans. Drawing limit for short term cash credit is based on the cropping pattern."
Based on the excerpt, what is the primary reason for bifurcating the KCC limit?
(A) The drawing limit for short-term credit is based on the cropping pattern.
(B) Short-term loans and term loans have different governing rules for interest and repayment.
(C) The Interest Subvention Scheme applies only to term loans.
(D) Bifurcation allows for a revision of the scale of finance if it exceeds a 10% hike.

Ans :

(B) Short-term loans and term loans have different governing rules for interest and repayment.
The provided text explicitly states that the card limit is bifurcated because short-term loans and term loans are governed by different interest rates and have different repayment schedules and norms. It also mentions that short-term crop loans are covered under special schemes like the Interest Subvention Scheme, necessitating separate management from term loans.

Oct/Nov 2023

17. A small farmer holds 2 acres of land and plans to cultivate 1 acre of Paddy (Scale of Finance: ₹11,000) and 1 acre of Sugarcane (Scale of Finance: ₹22,000). As per the KCC guidelines, what would be the cost of cultivation component for the 1st year?
(A) ₹22,000
(B) ₹33,000
(C) ₹11,000
(D) ₹42,900

Ans :

(B) ₹33,000
The cost of cultivation is the initial component for calculating the crop loan limit. It is determined by summing the costs for all crops based on their respective areas and scales of finance. In this case, the calculation is $(1\text{ acre} \times 11{,}000) + (1\text{ acre} \times 22{,}000)$, which totals ₹33,000.

NODIA

May/June 2012

18. Following the previous case, the cost of cultivation for the small farmer is ₹33,000. What is the total addition for post-harvest/household expenses and farm maintenance for the 1st year?
(A) ₹9,900
(B) ₹3,300
(C) ₹6,600
(D) ₹7,500

Ans :

(A) ₹9,900
The KCC calculation adds 10% of the cost of cultivation for post-harvest/household expenses and 20% for farm maintenance. Based on a cultivation cost of ₹33,000, the addition for post-harvest needs is 10% of ₹33,000 (₹3,300), and for farm maintenance is 20% of ₹33,000 (₹6,600). The total addition is $3,300 + 6,600 = 9,900$.

Oct/Nov 2013

19. Based on the case for the small farmer, the Total Crop Loan limit for the 1st year is calculated as ₹42,900. What will be the Total Crop Loan limit for the 2nd year?
(A) ₹46,200
(B) ₹47,190
(C) ₹47,200
(D) ₹51,900

Ans :

(C) ₹47,200
To calculate the 2nd year's crop loan limit, a 10% escalation is added to the 1st year's limit. The escalation amount is 10% of ₹42,900, which is ₹4,290. Adding this to the 1st year limit gives $42,900 + 4,290 = 47,190$. The provided illustration rounds this value to ₹47,200 for the 2nd year limit.

May/June 2007

20. A small farmer has a Total Crop Loan Amount (A) of ₹63,000 (rounded off for the 5th year) and a Total Term Loan Amount (B) of ₹70,000. What is the Maximum Permissible Limit / Kisan Credit Card Limit for this farmer?
(A) ₹70,000
(B) ₹63,000
(C) ₹1,00,000
(D) ₹1,33,000

Ans :

(D) ₹1,33,000
The Maximum Permissible Limit (MPL) for the Kisan Credit Card is the sum of the total crop loan amount for the 5th year (Component A) and the total term loan amount (Component B). Based on the provided illustration data, this is calculated as $63,000\ (A) + 70,000\ (B)$, resulting in a total KCC limit of ₹1,33,000.

Oct/Nov 2017

21. Consider the following data for a farmer (other than small and marginal): Land holding: 10 acres; Cropping Pattern: 5 acres Paddy (SoF ₹11,000/acre), 5 acres Groundnut (SoF ₹10,000/acre), 5 acres Sugarcane (SoF ₹22,000/acre); Investment: Purchase of Tractor for ₹6,00,000. Based on the data, what is the 'Cost of cultivation' component for the 1st year?
(A) ₹2,79,500
(B) ₹43,000
(C) ₹2,15,000
(D) ₹6,00,000

Ans :

(C) ₹2,15,000
The cost of cultivation is calculated by summing the product of area and scale of finance (SoF) for each crop. The calculation is: $(5 \text{ acres} \times 11,000) + (5 \text{ acres} \times 10,000) + (5 \text{ acres} \times 22,000)$. This equals $55,000 + 50,000 + 1,10,000$, which totals ₹2,15,000.

May/June 2021

22. In the case of the larger farmer, the Total Crop Loan limit for the 1st year is ₹2,79,500. What would be the Total Crop Loan limit for the 3rd year?
(A) ₹3,07,450
(B) ₹3,38,200
(C) ₹3,72,000
(D) ₹4,09,200

Ans :

(B) ₹3,38,200
Starting with a 1st year limit of ₹2,79,500, the 2nd year limit is 2,79,500 + 10% = 3,07,450. The 3rd year limit is then calculated by adding 10% to the 2nd year limit: ₹3,07,450 + (10% of ₹3,07,450) = ₹3,07,450 + ₹30,745 = ₹3,38,195. The illustration rounds this value to ₹3,38,200.

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Oct/Nov 2020

23. As per the case for the larger farmer, what is the final Maximum Permissible Limit / Kisan Credit Card Limit calculated?
(A) ₹7,00,000
(B) ₹4,09,000
(C) ₹3,72,000
(D) ₹11,09,000

Ans :

(D) ₹11,09,000
The Maximum Permissible Limit (MPL) is the sum of the Total Crop Loan Amount (A) and the Total Term Loan Amount (B). From the illustration, the rounded-off Total Crop Loan Amount for the 5th year is ₹4,09,000, and the Total Term Loan Amount is ₹7,00,000. Therefore, the MPL is ₹4,09,000 + ₹7,00,000 = ₹11,09,000.

May/June 2014

24. For marginal farmers, a flexible KCC limit is provided, known as Flexi KCC. What is the range of this flexible limit?
(A) ₹10,000 to ₹50,000
(B) ₹5,000 to ₹25,000
(C) ₹20,000 to ₹75,000
(D) ₹50,000 to ₹1,00,000

Ans :

(A) ₹10,000 to ₹50,000
The scheme provides special consideration for marginal farmers through a 'Flexi KCC'. This facility offers a flexible, composite limit ranging from ₹10,000 to ₹50,000. The limit is fixed for five years and covers crop cultivation, post-harvest needs, and small term loan investments without being linked to the value of land, simplifying credit access.

Oct/Nov 2022

25. A marginal farmer cultivates 1 acre of Paddy (SoF: ₹11,000) and wishes to purchase one milch animal (Unit Cost: ₹15,000). What is the Total Crop Loan limit for the 1st year (A1) for this farmer?
(A) ₹11,000
(B) ₹15,000
(C) ₹14,300
(D) ₹29,300

Ans :

(C) ₹14,300
The 1st year crop loan limit (A1) is calculated as: Cost of cultivation (₹11,000) + 10% for post-harvest/consumption (₹1,100) + 20% for farm maintenance (₹2,200). Summing these components gives a total of ₹11,000 + ₹1,100 + ₹2,200 = ₹14,300. This forms the short-term component of the composite KCC limit.

May/June 2010

26. Following the previous case, if the 1st Year Composite KCC Limit (A1+B) for the marginal farmer is ₹29,300, what will be the 2nd Year Composite KCC Limit (A2+B)?
(A) ₹30,730
(B) ₹32,300
(C) ₹29,300
(D) ₹35,930

Ans :

(A) ₹30,730
The 2nd year composite limit is calculated by escalating the crop loan component (A1) by 10% and adding the fixed term loan component (B). A2 = A1 + 10% of A1 = ₹14,300 + ₹1,430 =₹15,730. The composite limit is A2 + B = ₹15,730 + ₹15,000 = ₹30,730.

Oct/Nov 2012

27. What is the Maximum Permissible Limit for the marginal farmer at the end of the 5th year, as per the illustration?
(A) ₹35,930
(B) ₹34,030
(C) ₹29,300
(D) ₹36,000

Ans :

(D) ₹36,000
The 5th year composite KCC limit is calculated by adding the 5th year crop loan component (A5) and the term loan component (B). The A5 component is ₹20,930. The total limit is ₹20,930 + ₹15,000 = ₹35,930. The illustration shows this amount is then rounded off to ₹36,000 to set the final Maximum Permissible Limit.

May/June 2018

28. Which of the following groups is eligible for the KCC facility for Animal Husbandry and Fisheries?
(A) Only individual fish farmers who own or have a long-term lease on their ponds
(B) Fishers, fish farmers, SHGs, JLGs, and poultry/dairy farmers (individual or joint)

NODIA

products is a value-addition activity, a form of forward integration (S-1).

Oct/Nov 2006

47. Which of the following is the correct chronological order of the four phases of silk production in sericulture?

(A) Cultivation of host plant → Rearing of silkworms → Reeling of cocoons → Silk processing

(B) Rearing of silkworms → Cultivation of host plant → Reeling of cocoons → Silk processing

(C) Reeling of cocoons → Silk processing → Cultivation of host plant → Rearing of silkworms

(D) Cultivation of host plant → Reeling of cocoons → Rearing of silkworms → Silk processing

Ans :

(A) Cultivation of host plant → Rearing of silkworms → Reeling of cocoons → Silk processing

Sericulture follows a distinct production sequence. It begins with the cultivation of the host plant (like mulberry) to feed the silkworms. The next phase is the rearing of these silkworms until they form cocoons. Subsequently, the cocoons are reeled to extract continuous raw silk filaments. The final phase involves processing and weaving this raw silk.

May/June 2013

48. Which irrigation system is described as the "slow application of water, drop by drop, to the root zone of the crop"?

(A) Sprinkler Irrigation

(B) Drip Irrigation

(C) Lift Irrigation

(D) Flood Irrigation

Ans :

(B) Drip Irrigation

Drip irrigation is a water-efficient method defined by its specific application technique. It involves the slow, precise delivery of water directly to the root zone of the plants in the form of drops. This method minimizes water loss through evaporation or runoff and consists of equipment like pumps, PVC tubing, drip nozzles, and filters.

Oct/Nov 2019

49. What is the normal repayment period for a loan provided for the purchase of land to small/ marginal farmers?

(A) A period of five years with monthly instalments

(B) A period of ten years with half-yearly/yearly instalments

(C) A period of seven years with quarterly instalments

(D) A period of three years with a bullet repayment

Ans :

(B) A period of ten years with half-yearly/yearly instalments

Loans for land purchase are significant long-term investments for farmers. To make repayment manageable, the tenure is typically long. The normal repayment period is set at ten years, with an adequate gestation period. Instalments are usually structured as half-yearly or yearly to align with the farmer's main income cycles from harvests.

May/June 2011

50. Read the following paragraph on the Minimum Support Price (MSP) Scheme and answer the question below.

"The Minimum Support Price (MSP) Scheme is a scheme of the Government of India (GOI) under which, the covered agricultural produces are purchased from the farmers at the declared MSP thereby preventing distress sale. The Food Corporation of India (FCI) acts as the Nodal Agency of GOI. These prices are announced for 25 crops currently... National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) is the nodal procurement agency for Oilseeds and pulses..."

Which agency is the nodal procurement agency for oilseeds and pulses when their prices fall below MSP?

(A) National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED)

(B) Food Corporation of India (FCI)

(C) Government of India (GOI)

(D) Cotton Corporation of India

Ans :

(A) National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED)

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moving away from purely paper-based operations and promoting digital literacy among farmers.

Oct/Nov 2011

33. What is the documentation requirement for a KCC holder from the second year onwards?
(A) Complete fresh set of documents as per the first availment
(B) A simple declaration about the crops raised or proposed
(C) A new mortgage deed for the land holdings
(D) A no-objection certificate from the local panchayat

Ans :

(B) A simple declaration about the crops raised or proposed
To simplify the renewal process and reduce paperwork for farmers, the KCC scheme stipulates a one-time documentation at the time of the first loan availment. For subsequent years, the bank only needs to obtain a simple declaration from the farmer regarding the crops they have raised or plan to raise, provided it is within the limitation period.

May/June 2016

34. What is the normal repayment period for term loans sanctioned under the KCC scheme?
(A) 5 years
(B) 1 year
(C) 3 years
(D) 10 years

Ans :

(A) 5 years
While the repayment period for the short-term crop loan component is tied to the harvesting and marketing period of crops, the term loan component for investments has a longer tenure. The normal repayment period for these term loans is five years, although a longer period may be considered if required by the nature of the investment.

Oct/Nov 2005

35. What is the margin requirement for agricultural loans up to 1.6 lakh?
(A) 10%
(B) 15%
(C) No margin is required
(D) 25%

Ans :

(C) No margin is required
To enhance credit access for small-ticket loans and reduce the financial burden on farmers, RBI guidelines stipulate that banks should not insist on a margin contribution from the borrower for agricultural loans up to a limit of 1.6 lakh. The margin for loans above this amount may be decided by the individual banks.

May/June 2023

36. What is the security required for a KCC limit up to 1.60 lakh?
(A) Mortgage of agricultural land
(B) Third-party guarantee
(C) Pledge of gold ornaments
(D) Hypothecation of crops alone

Ans :

(D) Hypothecation of crops alone
For KCC limits up to 1.60 lakh, the security norms are relaxed to facilitate easier credit access. The primary security required is only the hypothecation of the crops being financed. This means the borrower creates a charge on the standing crops in favor of the bank, without the need for additional collateral like land mortgage.

Oct/Nov 2007

37. Under the KCC scheme, collateral security is required at the discretion of the bank for which limit range?
(A) For all KCC limits that are sanctioned up to 1.60 lakh
(B) Only for high-value KCC limits that are exceeding 10.00 lakh
(C) For limits above 1.60 lakh (non tie-up) or above 3.00 lakh (with tie-up)
(D) For all KCC limits, regardless of the sanctioned loan amount

Ans :

(C) For limits above 1.60 lakh (non tie-up) or above 3.00 lakh (with tie-up)
While smaller loans are collateral-free, banks have the discretion to ask for collateral security for higher limits. This is applicable for limits above 1.60 lakh where there is no tie-up arrangement for recovery, and for limits above 3.00 lakh even when a tie-up arrangement is in place for assured loan recovery.

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May/June 2006

38. Which of the following statements regarding 'Other Features' of KCC is correct?

I. Crop insurance is mandatory for all KCC borrowers.
II. Personal Accident Insurance Scheme (PAIS) is optional.
III. All Short Term Crop Loans eligible for Interest Subvention are now extended only through KCC.

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) All I, II, and III

Ans :

(B) Only II and III
The statement that crop insurance is mandatory is not universally true as its compulsory nature is often linked to the loan being availed. However, it is explicitly mentioned that the farmer's consent is needed for other insurances like PAIS, making them optional. It is also a key feature that interest subvention benefits on short-term crop loans are now exclusively routed through KCC.

Oct/Nov 2024

39. What is the primary purpose of Agricultural Term Loans?

(A) To meet recurring cultivation expenses for various seasonal crops
(B) To finance the bulk purchase of inputs like seeds and fertilizers
(C) To provide short-term working capital for approved non-farm activities
(D) To finance the purchase or creation of long-term agricultural assets

Ans :

(D) To finance the purchase or creation of long-term agricultural assets
Agricultural Term Loans are designed for capital expenditure and have a repayment period exceeding three years. Their purpose is to fund the acquisition of productive assets like farm machinery and bullocks, or the creation of long-term assets such as orchard development, dairy units, and fisheries, which enhance the farm's productive capacity.

May/June 2020

40. For which of the following activities under Agricultural Term Loans are supportive documents like estimates or quotations generally not required?

(A) For purchase of bullocks
(B) For land-based activities requiring land records
(C) For large loans requiring an estimate/ quotation
(D) For land development projects requiring an engineer's report

Ans :

(A) For purchase of bullocks
While larger term loans and land-based activities require documentation like quotations, land records, or engineer reports, the guidelines simplify the process for smaller, traditional asset purchases. For activities such as the purchase of bullocks, the need for supportive documents is typically waived, streamlining the loan process for farmers for such common requirements.

Oct/Nov 2015

41. Which of the following is NOT an activity covered under Land Development loans?

(A) Land levelling and shaping
(B) Bench terracing for hilly areas
(C) Digging of new wells
(D) Reclamation of saline/alkaline soils

Ans :

(C) Digging of new wells
Land development loans are aimed at improving the quality and usability of the land itself. This includes activities like land clearance, levelling, bench terracing, creating contour walls, and soil reclamation. Digging new wells, while an agricultural investment, is specifically categorized under 'Minor Irrigation' finance, not 'Land Development', as its primary purpose is water sourcing.

May/June 2015

42. For financing a minor irrigation project, which of the following documents is specifically required from a relevant authority?

(A) A feasibility certificate from the electricity board
(B) A soil test report from the agriculture department
(C) A quotation for a tractor from a dealer
(D) A report on estimated cost from a civil engineer

NODIA

Ans :

(A) A feasibility certificate from the electricity board

When financing the creation of irrigation facilities, particularly for energising wells with an electrical pump set, the viability of power supply is critical. Therefore, besides land records and cost estimates, a feasibility certificate from the concerned electricity board is a key document required to ensure that the proposed pump set can be energised.

Oct/Nov 2014

43. What is the minimum land holding norm for a farmer to be considered for a tractor loan for viable use?

(A) 2 acres of perennially irrigated land
(B) 10 acres of dry land
(C) There is no minimum land holding norm
(D) 5 acres of perennially irrigated land

Ans :

(D) 5 acres of perennially irrigated land

To ensure the economic viability of a high-value asset like a tractor, banks typically have a minimum landholding norm. For a tractor loan, the farmer should generally have a minimum of 5 acres of perennially irrigated land. This ensures that the tractor can be used optimally on the farmer's own land, justifying the investment.

May/June 2022

44. To encourage mechanisation among small and marginal farmers, what are they encouraged to purchase instead of a tractor?

(A) Combine harvesters
(B) Power Tillers
(C) Dusters and sprayers
(D) Second-hand tractors

Ans :

(B) Power Tillers

Recognizing that tractors may not be economically viable for farmers with small land holdings, the guidelines encourage a more appropriate form of mechanisation. Small and marginal farmers are specifically encouraged to purchase Power Tillers, which are more suitable and cost-effective for their scale of operations, promoting productivity without imposing an undue financial burden.

Oct/Nov 2025

45. Which of the following documents is specifically required for obtaining a loan for orchard development?

(A) A Geologist certificate
(B) A certificate from the electricity board
(C) A feasibility certificate from the local horticulture department
(D) A quotation for a pump set

Ans :

(C) A feasibility certificate from the local horticulture department

Financing for horticulture, especially long-term projects like orchard development, requires specialized technical assessment. A key document for this purpose is a feasibility certificate issued by the local horticulture department. This certificate validates the technical viability of the proposed orchard project, considering local agro-climatic conditions and suitability for the chosen fruit crops.

May/June 2008

46. Match the activity in Dairy Farming (List-I) with its description (List-II).

List-I

P. Setting up a small dairy unit
Q. Collection, processing, and distribution
R. Setting up breeding farms
S. Manufacturing milk products

List-II

1. Involves forward integration into value-added items.
2. Focuses on genetic improvement and animal supply.
3. Typically involves financing 2 to 4 milch cattle.
4. Involves infrastructure for milk procurement and supply chain.

(A) P-3, Q-4, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-3, R-1, S-4

Ans :

(A) P-3, Q-4, R-2, S-1

A small dairy unit is defined as one with 2 to 4 milch cattle (P-3). Collection and processing involve the milk supply chain infrastructure (Q-4). Breeding farms are for genetic improvement and animal supply (R-2). Manufacturing milk

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(C) Only dairy farmers who are part of a registered milk producers' cooperative union
(D) Only large-scale farmers with more than 5 acres of land for allied activities

Ans :

(B) Fishers, fish farmers, SHGs, JLGs, and poultry/dairy farmers (individual or joint)
The eligibility for the KCC facility for allied activities is extensive. It includes individual and group beneficiaries like fishers, fish farmers, Self Help Groups (SHGs), and Joint Liability Groups (JLGs). It also covers poultry and dairy farmers, whether as individual or joint borrowers, including tenant farmers with owned, rented, or leased sheds.

Oct/Nov 2009

29. What recurring costs may be included in the scale of finance for fisheries under the KCC scheme?
(A) Only the cost of the fishing vessel and nets
(B) Only the lease rent for the water area
(C) Seed, feed, fertilisers, labour, and fuel/ electricity charges
(D) Only veterinary aid and electricity supply

Ans :

(C) Seed, feed, fertilisers, labour, and fuel/ electricity charges
The scale of finance for fisheries, determined by the DLTC, is comprehensive. It includes various recurring operational costs essential for aquaculture. These costs cover inputs like seed and feed, organic and inorganic fertilisers, soil conditioners, as well as expenses for harvesting, marketing, labour, and utilities like fuel and electricity, ensuring complete working capital support.

May/June 2025

30. How is the repayment for a KCC loan for Animal Husbandry and Fisheries structured?
(A) As a fixed monthly instalment over five years
(B) As a bullet repayment at the end of the year
(C) As a lump sum payment after the completion of one production cycle
(D) As per the cash flow/income generation pattern of the specific activity

Ans :

(D) As per the cash flow/income generation pattern of the specific activity
The loan is structured as a revolving cash credit limit. Recognizing that different allied activities have unique income cycles, the repayment schedule is not fixed. Instead, it is flexibly determined based on the specific cash flow and income generation pattern of the activity being undertaken by the borrower, ensuring a practical and sustainable repayment plan.

Oct/Nov 2018

31. Which of the following is a permitted method for drawing funds from the short-term component of a KCC account?
(A) Through multiple channels including branch, Cheque, ATM/Debit cards, BCs, and PoS terminals
(B) Exclusively through branch-issued personalised cheque books for security
(C) Only through paper-based withdrawal slips presented at the home branch
(D) Only through a specific mobile banking app with IMPS fund transfer capabilities

Ans :

(A) Through multiple channels including branch, Cheque, ATM/Debit cards, BCs, and PoS terminals
The KCC scheme emphasizes flexibility and ease of access to funds. Farmers can draw from their short-term credit limit using a wide array of delivery channels. This includes traditional methods like visiting a branch or using a cheque, as well as modern electronic methods like ATMs, Debit Cards, Business Correspondents (BCs), and Point of Sale (PoS) machines.

May/June 2009

32. What type of card must be issued for all new KCC accounts?
(A) A simple magnetic stripe debit card
(B) A smart card cum debit card
(C) A credit card exclusively for PoS use
(D) An Aadhaar enabled payment card only

Ans :

(B) A smart card cum debit card
To modernize and secure transactions, the revised KCC scheme mandates that all new Kisan Credit Cards must be issued in the form of a smart card cum debit card. This enables electronic transactions across various platforms and enhances the functionality of the card,

NODIA

The paragraph clearly distinguishes the roles of the nodal agencies. While the Food Corporation of India (FCI) is mentioned as the nodal agency for the overall MSP scheme, it specifically identifies the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) as the designated nodal procurement agency for oilseeds and pulses.

Oct/Nov 2021

51. Which of the following is NOT a component of the "Pradhan Mantri Annadata Aay Sanrakshan Abhiyan" (PM-AASHA) umbrella scheme?
(A) Price Support Scheme (PSS)
(B) Price Deficiency Payment Scheme (PDPS)
(C) National Agriculture Insurance Scheme (NAIS)
(D) Pilot of Private Procurement & Stockist Scheme (PPPS)

Ans :

(C) National Agriculture Insurance Scheme (NAIS)
PM-AASHA is an umbrella scheme focused on ensuring remunerative prices for farmers' produce. Its three components are the Price Support Scheme (PSS), the Price Deficiency Payment Scheme (PDPS), and the Pilot of Private Procurement & Stockist Scheme (PPPS). The National Agriculture Insurance Scheme (NAIS) is a crop insurance scheme and not part of PM-AASHA.

May/June 2017

52. The Pradhan Mantri Fasal Bima Yojana (PMFBY) was introduced in 2016, replacing which of the following?
(A) The earlier Comprehensive Crop Insurance Scheme (CCIS) only
(B) The Minimum Support Price (MSP) Scheme for food grains
(C) The original Kisan Credit Card (KCC) scheme from 1998
(D) All prevailing yield insurance schemes in India, like NAIS and MNAIS

Ans :

(D) All prevailing yield insurance schemes in India, like NAIS and MNAIS
The Pradhan Mantri Fasal Bima Yojana (PMFBY) was launched as a major overhaul of crop insurance in India. It was introduced in 2016 to replace all existing yield insurance schemes, including the National Agricultural Insurance Scheme (NAIS) and the Modified NAIS, creating a more comprehensive and uniform "One Nation, One Scheme" platform for crop insurance.

Oct/Nov 2008

53. Which of the following risks is covered under the 'Basic Cover' of PMFBY?
(A) Loss arising out of war and nuclear risks
(B) Loss due to attack by wild animals
(C) Loss of yield due to widespread pest and disease attack
(D) Malicious damage and other preventable risks

Ans :

(C) Loss of yield due to widespread pest and disease attack
The 'Basic Cover' under PMFBY is mandatory and covers yield loss on an area-based approach from sowing to harvesting. It protects against non-preventable, widespread risks. These include natural events like drought, flood, and cyclone, as well as widespread pest and disease attacks. Risks like war, nuclear perils, and malicious damage are specifically excluded.

May/June 2005

54. Which of the following is considered an 'Add-On Coverage' under PMFBY and is not part of the mandatory Basic Cover?
(A) Loss of yield due to drought or dry spells
(B) Loss to crops dried in the field for up to two weeks post-harvest
(C) Loss due to natural fire caused by lightening
(D) Loss of yield due to flood and inundation

Ans :

(B) Loss to crops dried in the field for up to two weeks post-harvest
While the Basic Cover protects the standing crop until harvesting, Add-On covers are optional and can be chosen by states. Post-harvest loss coverage is a key add-on feature. It provides protection for up to two weeks from harvesting for crops that are left to dry in the field against specific perils like cyclone and unseasonal rains.

Oct/Nov 2016

55. What is a mandatory requirement for a farmer to avail crop insurance under PMFBY?
(A) The farmer must be a KCC holder
(B) The farmer must own the land being insured

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(C) The farmer must have a loan account with the enrolling agency
(D) The farmer must provide their Aadhaar Number

Ans :

(D) The farmer must provide their Aadhaar Number
To ensure proper identification, prevent duplication, and streamline the process of claims settlement, the PMFBY scheme has made Aadhaar a mandatory requirement. All enrolment agencies are instructed to obtain the Aadhaar number of the farmers who wish to avail the benefits of crop insurance under this scheme, making it a compulsory prerequisite for enrolment.

May/June 2024

56. Read the following excerpt on Sum Insured under PMFBY and answer the question below.
"States/UTs choose either the Scale of Finance or Notional Average Value (Notional Average Yield MSP/Farm Gate) price method for computation of Sum Insured for a district-crop combination for the entire period of the contract. The crop-wise sum insured notified in the first year/ season could be changed in the subsequent year/ season as per the change in the Scale of finance or MSP/ Farm gate price..."
According to the excerpt, how can the Sum Insured under PMFBY be changed after the first year?
(A) It can be changed according to changes in the Scale of Finance or MSP/Farm Gate price.
(B) It is fixed for the entire contract period and cannot be changed.
(C) It can be changed based on the farmer's request.
(D) It can only be changed if the Notional Average Yield changes.

Ans :

(A) It can be changed according to changes in the Scale of Finance or MSP/Farm Gate price.
The provided text explicitly states that the sum insured, which is notified in the first year, is not static. It can be modified in a subsequent year or season. This change is directly linked to and determined by any revisions in the Scale of Finance or the Minimum Support Price (MSP)/ Farm Gate price for the notified crop.

Oct/Nov 2010

57. Assertion (A): The KCC scheme simplifies credit access for farmers by providing a single-window facility.
Reason (R): The KCC covers a farmer's credit needs for cultivation, post-harvest expenses, consumption, and maintenance of farm assets.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true as the KCC is designed as a single-window credit system. Reason (R) is also true, as it lists the comprehensive range of needs covered by the card. Reason (R) correctly explains Assertion (A) because it is by covering this wide array of needs under one facility that the KCC achieves its objective of simplification.

NODIA

May/June 2019

58. Consider the following statements about security norms for KCC:
1. For loans up to 1.60 lakh, only hypothecation of crops is required.
2. The hypothecation limit can be extended to 3.00 lakh if there is a tie-up for recovery.
3. Collateral security is mandatory for all loans above 1.00 lakh.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(B) 1 and 2 only
Statement 1 is correct as loans up to 1.60 lakh are secured by crop hypothecation alone. Statement 2 is also correct, as this limit is extended to 3.00 lakh with a recovery tie-up. Statement 3 is incorrect because collateral is at the bank's discretion for limits above 1.60 lakh (non-tie-up), not mandatory for all loans above 1.00 lakh.

Oct/Nov 2023

59. Which of the following statements about farm mechanisation finance is incorrect?

(A) Finance is available for second-hand tractors with some stipulations.

(B) The repayment period for mechanisation loans varies from 3-9 years.

(C) The minimum acreage norm for a tractor loan can be relaxed based on deposits pledged.

(D) Small and marginal farmers are encouraged to buy large tractors for custom hiring.

Ans :

(D) Small and marginal farmers are encouraged to buy large tractors for custom hiring.

The guidelines explicitly state that small and marginal farmers should be encouraged to purchase Power Tillers based on their land holding, as these are more suitable for them. The text does not encourage them to buy large tractors. The other statements regarding financing second-hand tractors, repayment periods, and relaxation of norms are all correct.

May/June 2012

60. Which of the following is an incorrect pairing of an agricultural activity and its financing category?

(A) Dairy Farming - Medium/Long-Term Loan

(B) Purchase of a Power Tiller - Short-Term Loan

(C) Purchase of seeds for seasonal crops - Crop Loan

(D) Construction of storage facilities - Indirect Finance

Ans :

(B) Purchase of a Power Tiller - Short-Term Loan

The purchase of a Power Tiller is an investment in farm machinery, which is a capital asset. This type of financing falls under Farm Mechanisation, which is a category of Medium/Long-Term Loans, not Short-Term Loans. Short-term loans are for recurring expenses with a repayment period of up to 18 months, unlike asset-purchase loans.

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(rural household) or ₹2,00,000 (urban and semi-urban household).
2. Ceiling on Loan Amounts: Maximum loan amount ₹75,000 (first cycle) and ₹1,25,000 (subsequent cycles).
3. Total indebtedness: Maximum ₹1,25,000. Education and medical expenses are excluded..."

(A) A ₹70,000 first-cycle loan to a rural household with an annual income of ₹1,20,000.
(B) A ₹80,000 first-cycle loan to a rural household with an annual income of ₹1,20,000.
(C) A ₹1,00,000 second-cycle loan to an urban household with an annual income of ₹2,10,000.
(D) A loan where the borrower's total indebtedness, including the new loan, becomes ₹1,30,000.

Ans :

(A) A ₹70,000 first-cycle loan to a rural household with an annual income of ₹1,20,000.
This loan meets all criteria: the household income (₹1,20,000) is within the rural limit of ₹1,25,000, and the loan amount (₹70,000) is within the first-cycle limit of ₹75,000. The other options are incorrect because they fail one or more criteria: the first-cycle loan amount exceeds the limit (₹80,000 vs ₹75,000), the household income exceeds the urban limit (₹2,10,000 vs ₹2,00,000), or the total indebtedness exceeds the limit (₹1,30,000 vs ₹1,25,000).

Oct/Nov 2021

25. An NBFC-MFI is evaluating a loan application from a family living in a semi-urban area. The family's annual income is ₹1,90,000. The applicant has an existing loan of ₹60,000 and is applying for a new loan of ₹70,000 for business expansion. Does this loan application meet the qualifying asset criteria?

(A) Yes, because the household income is within the ₹2,00,000 limit and the total debt is acceptable.
(B) No, because the new loan amount of ₹70,000 is too high for a semi-urban area.
(C) No, because the total indebtedness will exceed ₹1,25,000.
(D) Yes, but only if the new loan is for education or medical expenses.

Ans :

(C) No, because the total indebtedness will exceed ₹1,25,000.
While the applicant's annual income of ₹1,90,000 is within the ₹2,00,000 limit for urban/semi-urban households, the total indebtedness criterion is not met. If the new loan of ₹70,000 is approved, the borrower's total debt would become ₹60,000 + ₹70,000 = ₹1,30,000. This exceeds the maximum permissible total indebtedness of ₹1,25,000 for a qualifying asset.

May/June 2024

26. Consider the following statements regarding the criteria for a loan to be a "Qualifying Asset" for an NBFC-MFI:

1. The maximum loan amount for a first-cycle borrower is ₹75,000.
2. The total indebtedness of the borrower, excluding educational loans, must not exceed ₹1,25,000.
3. Any loan exceeding ₹30,000 must have a tenure of not less than 24 months.
4. All loans must be secured by some form of tangible collateral.

Which of the above statements are correct?

(A) 1, 2 and 3 only
(B) 1 and 4 only
(C) 2, 3 and 4 only
(D) 1, 2, 3 and 4

Ans :

(A) 1, 2 and 3 only
Statement 1 is correct, as the first cycle loan ceiling is ₹75,000. Statement 2 is correct, as the total indebtedness cap is ₹1,25,000, with exclusions for education and medical expenses. Statement 3 is correct, specifying a minimum 24-month tenure for loans over ₹30,000. Statement 4 is incorrect; a key feature is that these loans must be extended without collateral.

Oct/Nov 2008

27. For a loan provided by an NBFC-MFI, what is the minimum percentage of the aggregate loan portfolio that must be directed towards income generation activities?

(A) 25%
(B) 75%
(C) 85%
(D) 50%

Ans :

(D) 50%

NODIA

May/June 2019

4. As of September 2020, what was the approximate share of NBFC-MFIs in the microfinance sector's gross loan portfolio in India?

(A) A little over 10% with a portfolio of ₹1.27 lakh crore

(B) A little over 20% with a portfolio of ₹1.77 lakh crore

(C) A little over 40% with a portfolio of ₹2.57 lakh crore

(D) A little over 30% with a portfolio of ₹2.27 lakh crore

Ans :

(D) A little over 30% with a portfolio of ₹2.27 lakh crore

The text states that the share of NBFC-MFIs in the microfinance sector stood at a little over 30% as of September 2020. This share corresponded to a gross loan portfolio of ₹2.27 lakh crore, highlighting the significant role these institutions play in delivering microcredit and other financial services to low-income segments across the country.

Oct/Nov 2006

5. Which of the following are mentioned as major sources of finance for Non-Banking Financial Companies (NBFCs)?

(A) Only public deposits and long-term bank borrowings

(B) Exclusively foreign direct investment (FDI) and external commercial borrowings (ECBs)

(C) Public deposits (with RBI approval), debentures, bank borrowings, and commercial papers

(D) Only debentures (both convertible and non-convertible) and short-term commercial papers

Ans :

(C) Public deposits (with RBI approval), debentures, bank borrowings, and commercial papers

NBFCs utilize several sources to raise funds for their operations. The primary channels mentioned are public deposits, for which specific approval from the RBI is required, along with debentures, bank borrowings, and commercial papers. Bank borrowings, in particular, are highlighted as a major source of funds for these financial intermediaries, including NBFC-MFIs.

NODIA

May/June 2021

6. What types of financial assistance are banks permitted to extend to NBFCs registered with the RBI?

(A) Only need-based working capital facilities

(B) Both need-based working capital facilities and term loans

(C) Only term loans for infrastructure financing

(D) Only finance against second-hand assets

Ans :

(B) Both need-based working capital facilities and term loans

Banks are permitted to provide a range of financial support to NBFCs that are registered with the RBI. This includes extending need-based working capital facilities as well as term loans. This financing can support various activities such as infrastructure financing, equipment leasing, hire-purchase, and factoring, subject to prevailing guidelines and applicable exposure norms.

Oct/Nov 2010

7. Which of the following categories of companies is NOT exempted from the requirement of registration with the RBI under the RBI Act, 1934?

(A) Nidhi Companies

(B) Chit Companies under the Chit Funds Act, 1982

(C) Asset Reconstruction Companies registered under the SARFAESI Act, 2002

(D) Housing Finance Companies (HFCs)

Ans :

(D) Housing Finance Companies (HFCs)

The text specifies that all NBFCs, including Housing Finance Companies (HFCs), are required to register with the RBI. However, it lists several exempted categories. These exemptions include Micro Finance Companies (subject to conditions), Asset Reconstruction Companies, Nidhi Companies, Mutual Benefit Companies, Chit Companies, and Merchant Banking Companies, but not HFCs in general.

May/June 2005

8. Based on the provided source, for which activity can a bank NOT provide finance to an NBFC?

"38.3.2 Activities not Eligible for Bank Credit"

"Banks are prohibited from providing credit for:

(i) Bills discounted/ rediscounted by NBFCs (with exceptions)...
(ii) Investments of NBFCs... in any company/ entity by way of shares, debentures, etc. (with exceptions)...
(iii) Unsecured loans / inter-corporate deposits by NBFCs...
(iv) All types of loans and advances by NBFCs to their subsidiaries...
(v) Finance to NBFCs for further lending to individuals for subscribing to IPOs..."

(A) For an NBFC to grant unsecured loans to another company
(B) For an NBFC to on-lend for the purchase of commercial vehicles
(C) For a Stock Broking Company to hold shares as stock-in-trade
(D) For an NBFC to finance the acquisition of second-hand assets

Ans :

(A) For an NBFC to grant unsecured loans to another company
The source explicitly lists several activities of NBFCs that are not eligible for bank credit. Among these is the provision of unsecured loans or inter-corporate deposits by an NBFC to any company. Bank finance cannot be used to support this specific activity. The other options represent either eligible activities or exceptions to the ineligible categories mentioned.

Oct/Nov 2022

9. While banks are generally prohibited from rediscounting bills discounted by NBFCs, an exception is made for bills arising from the sale of which specific goods?
(A) Consumer durables and electronic goods
(B) Agricultural machinery and equipment
(C) Commercial vehicles, two-wheelers, and three-wheelers
(D) Industrial raw materials and finished goods

Ans :

(C) Commercial vehicles, two-wheelers, and three-wheelers
The general rule prohibits banks from rediscounting bills already discounted by NBFCs. However, a specific exception allows this for bills arising from the sale of commercial vehicles (including light commercial vehicles), two-wheeler vehicles, and three-wheeler vehicles, provided the bills are drawn by the manufacturer on dealers and represent genuine sale transactions verified by chassis/engine numbers.

May/June 2018

10. A bank is approached by an NBFC that is also a registered Stock Broking Company. The NBFC requests a need-based credit facility to finance its portfolio of shares and debentures, which it holds as part of its broking operations. How should the bank proceed?
(A) Approve the proposal, as an exception exists for Stock Broking Companies holding securities as stock-in-trade.
(B) Reject the proposal, as financing NBFC investments in shares is prohibited.
(C) Reject the proposal, as bank finance is only for infrastructure and equipment leasing activities.
(D) Approve the proposal but only for investments in government securities, not corporate shares.

Ans :

(A) Approve the proposal, as an exception exists for Stock Broking Companies holding securities as stock-in-trade.
Although bank credit is generally not available for an NBFC's investments in shares and debentures, a specific exception is carved out for Stock Broking Companies. These entities can be provided with need-based credit against shares and debentures that are held by them as their stock-in-trade, making the NBFC's request in this case permissible.

Oct/Nov 2016

11. Which of the following statements regarding activities of NBFCs not eligible for bank credit is incorrect?
(A) Banks cannot finance NBFCs for the purpose of further lending to individuals to purchase shares from the secondary market.
(B) Banks are prohibited from financing any type of loan or advance made by an NBFC to its subsidiary companies.
(C) Banks cannot provide credit to an NBFC to fund its inter-corporate deposits to other companies.
(D) Banks can rediscount bills discounted by NBFCs if they arise from the sale of any type of consumer goods.

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Ans :

(D) Banks can rediscount bills discounted by NBFCs if they arise from the sale of any type of consumer goods.

This statement is incorrect. The exception for rediscounting bills is very specific and does not apply to all consumer goods. It is restricted to bills arising from the sale of commercial vehicles, two-wheelers, and three-wheelers, under specific conditions. The other statements correctly describe activities that are ineligible for bank credit as per the regulations.

May/June 2014

12. A Factoring Company has 40% of its income from factoring and 60% of its assets as purchased receivables. Does it qualify for bank finance based on the source?

"Bank Finance to Factoring Companies"

"Banks can extend financial assistance for factoring business of Factoring Companies,

which comply with the following criteria:

(i) Qualify as factoring companies... under the Factoring Regulation Act, 2011...

(ii) At least 50% of income is from factoring activity.

(iii) Receivables purchased/ financed... form at least 50% of the assets.

(iv) The assets/ income do not include that relating to bill discounting facility."

(A) Yes, because its assets meet the 50% receivables criteria.

(B) No, because its income from factoring is below the 50% threshold.

(C) Yes, because it is registered under the Factoring Regulation Act, 2011.

(D) No, because its assets/income must not include any bill discounting.

Ans :

(B) No, because its income from factoring is below the 50% threshold.

The provided source specifies several cumulative criteria for a Factoring Company to be eligible for bank finance. One of these key requirements is that at least 50% of the company's income must be derived from factoring activity. Since the company in question only earns 40% of its income from factoring, it fails to meet this condition.

Oct/Nov 2007

13. Under what specific circumstance can a bank provide a form of credit support for bonds issued by certain NBFCs, despite the general restriction on issuing guarantees?

(A) By issuing a full guarantee for inter-company deposits

(B) By offering bridge loans against the bond issue

(C) By providing Partial Credit Enhancement (PCE) to bonds issued by NBFC-ND-SIs and HFCs

(D) By accepting shares of the NBFC as collateral for the bond issue

Ans :

(C) By providing Partial Credit Enhancement (PCE) to bonds issued by NBFC-ND-SIs and HFCs

While banks are broadly restricted from issuing guarantees that cover deposits or loans accepted by NBFCs, a specific exception is permitted. Banks can provide Partial Credit Enhancement (PCE) to bonds that are issued by Non-Deposit taking Systemically Important NBFCs (NBFC-ND-SIs) and Housing Finance Companies (HFCs), thereby improving the credit rating of those instruments.

NODIA

May/June 2025

14. What is the maximum prudential exposure limit for a bank to a single NBFC, excluding gold loan companies, as a percentage of the bank's capital?

(A) 15% of the bank's Tier I Capital

(B) 25% of the bank's total Capital (Tier I + Tier II)

(C) 20% of the bank's total Capital (Tier I + Tier II)

(D) 20% of the bank's Tier I Capital

Ans :

(D) 20% of the bank's Tier I Capital

The prudential norms specify a clear ceiling on a bank's exposure to a single Non-Banking Financial Company. For a single NBFC that is not a gold loan company, this exposure is capped at a maximum of 20% of the bank's Tier I capital. The guidelines also note that more stringent limits may be considered for certain categories.

CHAPTER 38

Finance to MFIS/Co-lending Arrangements With NBFCS

Oct/Nov 2012

1. According to the definition provided, which of the following activities would disqualify an institution from being classified as a Non-Banking Financial Company (NBFC) if it is its principal business?

(A) Providing loans and advances
(B) Sale and purchase of immovable property
(C) Acquisition of shares, stocks, and bonds
(D) Business of hire-purchase and leasing

Ans :

(B) Sale and purchase of immovable property
An NBFC is a company engaged in the business of loans, advances, and acquisition of securities. The definition explicitly excludes any institution whose principal business is agricultural activity, industrial activity, purchase or sale of any goods (other than securities), or providing any services and sale, purchase, or construction of immovable property, from being classified as an NBFC.

May/June 2007

2. Which set of characteristics typically differentiates Non-Banking Financial Companies (NBFCs) from traditional banks, giving them a competitive edge in financial inclusion?

(A) Superior understanding of regional dynamics, lower transaction costs, and quick decision making
(B) Higher transaction costs, centralized decision making, and standardized product offerings
(C) Mandatory acceptance of demand deposits, broad regulatory oversight, and focus on large corporate clients
(D) Slower service provision, rigid collection systems, and a focus on urban-centric services

Ans :

(A) Superior understanding of regional dynamics, lower transaction costs, and quick decision making
NBFCs possess a competitive advantage due to their superior grasp of regional dynamics, well-developed collection systems, and personalised services. Key differentiators from banks include lower transaction costs, rapid decision-making processes, strong customer orientation, and the prompt provision of services, which collectively aid in expanding financial inclusion to underserved areas and populations in India.

Oct/Nov 2025

3. What is the primary objective of microfinance as a financial service?

(A) To provide large-scale corporate loans and manage complex investment banking services
(B) To offer high-interest credit cards and unsecured personal loans to urban professionals
(C) To promote financial inclusion for poor and low-income households by providing small loans
(D) To exclusively finance large-scale agricultural activities and major industrial projects

Ans :

(C) To promote financial inclusion for poor and low-income households by providing small loans
Microfinance is specifically designed to provide small loans and other financial services to poor and low-income households. Its fundamental goal is to promote financial inclusion, enabling these households to escape poverty, enhance their income levels, and improve their overall living standards. It serves as a critical tool for economic empowerment at the grassroots level.

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(B) 7.5%
(C) 5%
(D) 10%

Ans :

(C) 5%
There is a specific cap on the amount of credit extended to NBFCs (including HFCs) for the purpose of on-lending that can be classified under the priority sector. This cap is set at 5% of the bank's total priority sector lending, calculated as an average across four quarters. This ensures a diversified priority sector portfolio for the bank.

May/June 2017

20. What is the minimum Net Owned Funds (NOF) requirement for a company to be classified as an NBFC-MFI, for entities outside the North Eastern Region?
(A) ₹2 crore
(B) ₹10 crore
(C) ₹20 crore
(D) ₹5 crore

Ans :

(D) ₹5 crore
To qualify as a Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI), a company must meet specific criteria. One of the primary conditions is maintaining a minimum level of Net Owned Funds (NOF). For an NBFC-MFI registered and operating in any part of India other than the North Eastern Region, this minimum NOF is set at ₹5 crore.

Oct/Nov 2005

21. For an NBFC-MFI registered in the North Eastern Region of India, what is the specified minimum Net Owned Funds (NOF) requirement?
(A) ₹1 crore
(B) ₹3 crore
(C) ₹2 crore
(D) ₹5 crore

Ans :

(C) ₹2 crore
Recognizing the unique economic landscape and to encourage the growth of microfinance activities in the North Eastern Region, the regulatory framework provides a lower entry barrier. For an NBFC-MFI registered in this specific region, the minimum Net Owned Funds (NOF) requirement is reduced to ₹2 crore, compared to the ₹5 crore requirement elsewhere in the country.

May/June 2020

22. To be defined as an NBFC-MFI, a company must ensure that its "qualifying assets" constitute at least what percentage of its net assets?
(A) 50%
(B) 85%
(C) 75%
(D) 100%

Ans :

(B) 85%
A critical condition for an NBFC to be classified as an NBFC-MFI is the composition of its asset portfolio. The regulations mandate that not less than 85% of the company's net assets must be in the form of "qualifying assets." This ensures that the institution's primary focus remains on providing microfinance loans that meet specific criteria.

Oct/Nov 2015

23. In the context of an NBFC-MFI's qualifying assets, how are "net assets" calculated?
(A) Total assets minus total liabilities
(B) Total assets minus fixed assets and intangible assets
(C) Total assets minus Net Owned Funds
(D) Total assets minus cash, bank balances, and money market instruments

Ans :

(D) Total assets minus cash, bank balances, and money market instruments
The calculation of "net assets" is crucial for determining the qualifying assets share of an NBFC-MFI. Net assets are defined as the company's total assets, from which highly liquid assets are excluded. Specifically, the formula is total assets less the sum of cash, balances held with banks, and investments in money market instruments.

May/June 2013

24. Based on the source, which loan would be considered a "Qualifying Asset"?
"38.5.1 Definition - NBFC-MFI"
"Qualifying Asset: A loan which satisfies the following criteria:
1. Household Income Ceiling: Borrower with annual income not exceeding ₹1,25,000

(A) 30 days or more
(B) 90 days or more
(C) 60 days or more
(D) 180 days or more

Ans :

(B) 90 days or more
The asset classification norms for NBFC-MFIs define a Non-Performing Asset (NPA) based on the duration of the payment default. An account becomes an NPA if the interest and/or principal payment has remained overdue for a period of 90 days or more. This aligns the NPA recognition norm for NBFC-MFIs with that of commercial banks.

Oct/Nov 2009

33. The provisioning requirement for NPAs that are "Qualifying Assets" in an NBFC-MFI is the higher of two calculations. One is 1% of the outstanding loan portfolio. What is the other calculation?
(A) A flat provision of 100% on the entire outstanding amount for all instalments that are overdue.
(B) 50% of aggregate instalments overdue between 91-180 days plus 100% of aggregate instalments overdue for more than 180 days.
(C) A provision of 25% of aggregate instalments overdue between 91-180 days plus 75% of aggregate instalments overdue for more than 180 days.
(D) A full 100% provision on the principal outstanding for all NPAs, regardless of the overdue period of the instalments.

Ans :

(B) 50% of aggregate instalments overdue between 91-180 days plus 100% of aggregate instalments overdue for more than 180 days.
The provisioning rule for qualifying asset NPAs requires an NBFC-MFI to provide for an amount that is the higher of two specific calculations. The first is a straightforward 1% of the entire outstanding loan portfolio. The second is a tiered calculation based on the age of overdue instalments: 50% of aggregate instalments overdue between 91-180 days plus 100% of aggregate instalments overdue for more than 180 days.

May/June 2023

34. What is the mandatory requirement for every NBFC-MFI with respect to Credit Information Companies (CICs)?
(A) To be a member of all CICs
(B) To be a member of at least one CIC
(C) To be a member of at least two CICs
(D) To report data only to the largest CIC

Ans :

(A) To be a member of all CICs
To strengthen the credit information system and mitigate risks associated with multiple lending and over-indebtedness, the regulations are stringent. Every NBFC-MFI is mandated to become a member of all Credit Information Companies (CICs) that are approved by the RBI. They must also provide timely and accurate data to them and utilize the data from CICs.

Oct/Nov 2018

35. For large NBFC-MFIs with a loan portfolio exceeding ₹100 crore, what is the maximum permissible margin cap (difference between the interest rate charged to the borrower and the cost of funds)?
(A) 8%
(B) 12%
(C) 10%
(D) 15%

Ans :

(C) 10%
To ensure that credit pricing remains reasonable for borrowers, RBI has prescribed a margin cap for NBFC-MFIs. For larger institutions, defined as those with a loan portfolio exceeding ₹100 crore, this margin is capped at a maximum of 10%. For smaller NBFC-MFIs, a slightly higher margin cap of 12% is permitted.

May/June 2016

36. An NBFC-MFI (with a portfolio below ₹100 crore) has a cost of funds of 12%. The average base rate of the five largest commercial banks is 8%, which multiplied by 2.75 gives 22%. What is the maximum interest rate this MFI can charge its borrowers?
(A) 24%
(B) 20%
(C) 12%
(D) 22%

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To ensure that microfinance primarily supports livelihood and economic upliftment, the regulations stipulate a specific portfolio composition for NBFC-MFIs. At least 50% of the aggregate value of loans provided by an NBFC-MFI must be for activities that generate income. The remaining portion can be for other purposes like housing repairs, education, or medical emergencies.

May/June 2006

28. Assertion (A): An NBFC that does not qualify as an NBFC-MFI faces a strict limit on its microfinance lending activities.
Reason (R): Such an NBFC is allowed to extend loans to the microfinance sector up to a maximum of 10% of its total assets.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; non-qualifying NBFCs are restricted in their microfinance operations. Reason (R) is also true and provides the specific detail of that restriction. The reason correctly explains the assertion by stating that the limit for such an NBFC to extend loans to the microfinance sector is capped at 10% of its total assets.

Oct/Nov 2017

29. Which of the following conditions must be fulfilled by a Micro Finance Institution (MFI) to be exempted from registration with the RBI?
1. It must be licensed under Section 8 of the Companies Act, 2013.
2. It must not accept public deposits as defined in RBI Directions.
3. It provides credit not exceeding ₹50,000 for a business enterprise.

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1, 2, and 3
(D) 1 and 3 only

Ans :

(C) 1, 2, and 3

For an MFI to be exempted from RBI registration, it must satisfy a set of cumulative conditions. These include being a non-profit company licensed under Section 8 of the Companies Act, 2013 (formerly Sec. 25 of the 1956 Act), not accepting any public deposits, and adhering to specific lending quantum limits, such as not exceeding ₹50,000 for a business enterprise.

May/June 2008

30. What is the minimum Capital Adequacy Ratio (CAR) that an NBFC-MFI is required to maintain?
(A) 9% of aggregate risk weighted assets
(B) 12% of aggregate risk weighted assets
(C) 18% of aggregate risk weighted assets
(D) 15% of aggregate risk weighted assets

Ans :

(D) 15% of aggregate risk weighted assets
As part of the prudential norms to ensure financial stability, NBFC-MFIs are required to maintain a minimum level of capital relative to their risk-weighted assets. This Capital Adequacy Ratio (CAR) is set at not less than 15%. This capital must consist of both Tier I and Tier II capital, with a further stipulation on their proportion.

Oct/Nov 2013

31. According to the prudential norms for NBFC-MFIs, what is the relationship stipulated between Tier I and Tier II Capital?
(A) Tier II Capital must not exceed Tier I Capital.
(B) Tier I Capital must not exceed Tier II Capital.
(C) Tier I and Tier II Capital must always be equal.
(D) Tier II Capital must be at least 50% of Tier I Capital.

Ans :

(A) Tier II Capital must not exceed Tier I Capital.
The prudential norms for NBFC-MFIs specify requirements not only for the total capital but also for its quality. While both Tier I (core capital) and Tier II (supplementary capital) contribute to the 15% minimum CAR, the framework mandates that the amount of Tier II Capital cannot be more than the amount of Tier I Capital.

May/June 2015

32. For an NBFC-MFI, an asset is classified as a Non-Performing Asset (NPA) if the interest or principal payment has remained overdue for a period of:

NODIA

Oct/Nov 2019

15. Match the type of NBFC exposure (List-I) with the corresponding prudential ceiling for a bank (List-II).

List-I

P. Single NBFC (excluding gold loan)
Q. Group of connected NBFCs
R. Single NBFC (predominantly gold loan)
S. Aggregate exposure to NBFC Sector

List-II

1. Maximum 7.5% of the bank's Tier I plus Tier II Capital
2. Maximum 25% of the bank's Tier I Capital
3. Bank to fix internal limits
4. Maximum 20% of the bank's Tier I Capital

(A) P-4, Q-2, R-1, S-3
(B) P-2, Q-4, R-3, S-1
(C) P-4, Q-1, R-2, S-3
(D) P-1, Q-2, R-4, S-3

Ans :

(A) P-4, Q-2, R-1, S-3
The prudential ceilings are set as follows: Exposure to a single NBFC (non-gold loan) is capped at 20% of the bank's Tier I Capital (P-4). Exposure to a group of connected NBFCs is capped at 25% of Tier I Capital (Q-2). For a single gold loan NBFC, it's 7.5% of Tier I plus Tier II Capital (R-1). For the aggregate exposure to the entire NBFC sector, banks must set their own internal limits (S-3).

May/June 2009

16. A bank with a Tier I Capital of ₹1,000 crore and Tier II Capital of ₹200 crore is assessing its exposure to a single NBFC that predominantly lends against gold jewellery. The NBFC is not involved in on-lending for infrastructure. What is the maximum exposure the bank can have to this NBFC?
(A) ₹200 crore
(B) ₹90 crore
(C) ₹150 crore
(D) ₹75 crore

Ans :

(B) ₹90 crore
The prudential ceiling for a single NBFC predominantly lending against gold jewellery is 7.5% of the bank's Tier I plus Tier II Capital. The bank's total capital is ₹1,000 crore (Tier I) + ₹200 crore (Tier II)} = ₹1,200 crore. Therefore, the maximum exposure is $7.5\% \times 1,200 \text{ crore} = 90 \text{crore}$.

Oct/Nov 2011

17. The exposure ceiling for a bank to a single NBFC predominantly lending against gold can be increased from 7.5% to 12.5% of the bank's Tier I plus Tier II capital. This increase is permissible only if the additional exposure is for what specific purpose?
(A) On-lending by the NBFC for housing finance
(B) On-lending by the NBFC to the infrastructure sector
(C) On-lending by the NBFC for vehicle finance
(D) On-lending by the NBFC for subscribing to IPOs

Ans :

(B) On-lending by the NBFC to the infrastructure sector
The standard exposure limit for a single gold loan NBFC is 7.5% of the bank's combined Tier I and Tier II capital. However, the guidelines provide for an enhanced ceiling of up to 12.5%. This additional 5% exposure is allowed only on the condition that the funds are on-lent by the NBFC specifically to the infrastructure sector.

May/June 2010

18. Bank loans to NBFCs for the purpose of on-lending are eligible for classification under which category for the lending bank?
(A) Priority Sector
(B) Non-Priority Sector
(C) Capital Market Exposure
(D) Inter-bank lending

Ans :

(A) Priority Sector
Banks are permitted to extend loans to NBFCs for the specific purpose of on-lending to designated priority sectors. When structured correctly and subject to specified conditions and ceilings, these loans extended by the bank to the NBFC are eligible to be classified as priority sector advances for the bank, helping it meet its regulatory targets.

Oct/Nov 2024

19. Bank credit to NBFCs (including HFCs) for on-lending, excluding loans to MFIs, should be within what percentage of the bank's total priority sector lending?
(A) 2%

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Ans :

(D) 22%
The interest rate charged by an NBFC-MFI must be the lower of two calculations. The first is Cost of Funds + Margin Cap. For a smaller MFI, the margin cap is 12%, so this would be 12% + 12% = 24%. The second is the average base rate of the five largest banks multiplied by 2.75, which is given as 22%. The MFI must charge the lower of these two, which is 22%.

Oct/Nov 2014

37. What is the maximum variance in the interest rate that an NBFC-MFI can have between different individual loans within the same loan product (excluding the effect of risk premium)?
(A) 2%
(B) 5%
(C) 4%
(D) There is no limit on variance.

Ans :

(C) 4%
To maintain transparency and fairness in pricing, regulations stipulate a limit on the interest rate variation for loans under the same product. The variance in the interest rate on individual loans should not be more than 4%. This ensures that borrowers receiving the same type of loan are not subjected to widely divergent interest rates.

May/June 2012

38. The processing charges collected by an NBFC-MFI on a microfinance loan must not exceed what limit?
(A) 2% of the net loan amount
(B) 1% of the gross loan amount
(C) A flat fee of ₹500
(D) 0.5% of the gross loan amount

Ans :

(B) 1% of the gross loan amount
The guidelines on pricing of credit for NBFC-MFIs include a specific cap on the processing charges to prevent them from becoming excessive. These charges are not permitted to be more than 1% of the gross loan amount. This fee must be inclusive of all charges and cannot be supplemented by other hidden administrative fees.

Oct/Nov 2020

39. Which of the following statements regarding lending practices for NBFC-MFIs is correct?
(A) An individual borrower can be a member of up to two Self-Help Groups (SHGs) simultaneously.
(B) A maximum of three NBFC-MFIs are permitted to lend to the same borrower.
(C) NBFC-MFIs can only lend to individuals who are members of a Joint Liability Group (JLG) or SHG.
(D) Not more than two NBFC-MFIs shall lend to the same borrower.

Ans :

(D) Not more than two NBFC-MFIs shall lend to the same borrower.
To prevent over-indebtedness, a clear restriction is placed on multiple lending. The regulations state that a maximum of two NBFC-MFIs can provide loans to the same borrower. The rule also states a borrower cannot be a member of more than one SHG/JLG, and NBFC-MFIs can lend to individuals regardless of their group membership.

May/June 2022

40. Statement I: Banks that provide loans to NBFC-MFIs are also responsible for monitoring the compliance of these institutions with regulatory norms.
Statement II: All NBFC-MFIs are required to become a member of at least one Self-Regulatory Organisation (SRO) recognized by the RBI.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct and Statement II is incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(A) Both Statement I and Statement II are correct.
Both statements are correct. The responsibility for monitoring compliance does not rest solely with the NBFC-MFI itself or industry bodies; the banks that lend to them must also ensure adherence to the rules. Additionally, it is mandatory for every NBFC-MFI to join at least one RBI-recognized Self-Regulatory Organisation (SRO) and comply with its code of conduct.

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Oct/Nov 2019

57. Under the Co-Lending Model (CLM), what is the maximum time frame stipulated for the co-lenders to resolve a complaint registered by a borrower?

(A) 15 days
(B) 45 days
(C) 30 days
(D) 60 days

Ans :

(C) 30 days

The guidelines for the Co-Lending Model emphasize customer protection and efficient grievance redressal. They mandate that a suitable arrangement must be established by the co-lenders to ensure that any complaint registered by a borrower with the NBFC (the single point of contact) is resolved within a maximum period of 30 days.

May/June 2009

58. How are transactions like disbursements and repayments managed between the bank and the NBFC in a Co-Lending Model arrangement?

(A) They are routed through a dedicated escrow account maintained with the lending bank.
(B) They are managed directly through the NBFC's general current and savings accounts.
(C) They are aggregated and settled on a quarterly basis through a national clearing house system.
(D) The bank directly disburses its share to the borrower, and the NBFC does the same in parallel.

Ans :

(A) They are routed through a dedicated escrow account maintained with the lending bank.

To ensure transparency, proper fund flow management, and clear accounting, the operational guidelines for the Co-Lending Model (CLM) specify a particular mechanism for financial transactions. All transactions, including disbursements and repayments, that occur between the bank and the NBFC relating to the CLM must be routed through a dedicated escrow account maintained with the bank.

Oct/Nov 2011

59. Regarding the prudential norms for an NBFC-MFI, if an advance is covered by the Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH), how is the provisioning requirement affected once the advance becomes non-performing?

(A) A mandatory 100% provision is required on the entire outstanding loan amount immediately.
(B) A flat 20% provision is required on the guaranteed portion, with normal provisioning on the rest.
(C) The provisioning requirement is fully deferred until the guarantee claim is officially invoked and settled.
(D) No provision is required for the specific portion of the non-performing advance covered by the guarantee.

Ans :

(D) No provision is required for the specific portion of the non-performing advance covered by the guarantee.

The provisioning norms for NBFC-MFIs provide specific treatment for guaranteed advances. When an advance covered by a CRGFTLIH guarantee becomes non-performing, the NBFC is not required to make any provision for the portion of the loan that is covered by the guarantee. Provisioning as per normal prudential norms is only required for the excess outstanding amount not covered by the guarantee.

NODIA

May/June 2010

60. What is the rule regarding the moratorium period before the first instalment of a loan from an NBFC-MFI?

(A) The moratorium must be a fixed, mandatory period of 30 days for all types of microfinance loans.
(B) The moratorium period should be at least the same as the frequency of the loan instalments.
(C) There should be no moratorium period; the first repayment instalment must start immediately after disbursement.
(D) The moratorium period is decided solely at the discretion of the NBFC-MFI based on its credit policy.

Ans :

(B) The moratorium period should be at least the same as the frequency of the loan instalments.

The regulations for NBFC-MFIs include a provision to give borrowers adequate time to

(B) Customer complaints must be resolved by the co-lenders within 60 days.
(C) The NBFC is responsible for being the sole interface for the customer.
(D) The customer will receive separate account statements from the bank and the NBFC.

Ans :

(C) The NBFC is responsible for being the sole interface for the customer.
The provided text clearly outlines the customer service framework under the Co-Lending Model. It explicitly states that the NBFC shall be the single point of interface for the customers. This simplifies the experience for the borrower, who does not have to interact with both the bank and the NBFC for routine service matters.

May/June 2019

46. A bank and an NBFC enter into a Co-Lending Model arrangement. An individual loan of ₹10 lakh is disbursed to a borrower under this model. The NBFC retains its minimum share. Later, the loan turns into an NPA. How is the asset classification and provisioning handled?
(A) The NBFC is solely responsible for 100% of the provisioning as the originating lender.
(B) The bank is solely responsible for 100% of the provisioning as it holds the majority share.
(C) The loan is classified as an NPA only on the bank's books, not the NBFC's, due to its larger exposure.
(D) Each lender adheres to its respective IRAC and provisioning norms for its share of the loan.

Ans :

(D) Each lender adheres to its respective IRAC and provisioning norms for its share of the loan.
Under the CLM, while the loan is co-lent, the exposure is maintained individually on the books of the bank and the NBFC. The operational guidelines state that each lender shall adhere to the Income Recognition, Asset Classification (IRAC), and provisioning requirements applicable to it for its respective share of the loan account.

Oct/Nov 2006

47. What does the "without recourse" clause for the bank's share of assets under the Co-Lending Model (CLM) signify?
(A) The bank bears the full credit risk for its portion of the loan and cannot transfer it back to the NBFC.
(B) The bank can exercise its right to ask the NBFC to buy back the defaulted loan portfolio.
(C) The NBFC is required to provide a full financial guarantee to the bank for its entire share of the loan.
(D) The borrower loses the right to recourse to the banking ombudsman for any service-related complaints.

Ans :

(A) The bank bears the full credit risk for its portion of the loan and cannot transfer it back to the NBFC.
The stipulation that the bank's share of the assets is "without recourse" to the NBFC is a critical aspect of the CLM. It means that the credit risk associated with the bank's portion of the loan (typically up to 80%) rests entirely with the bank. It cannot demand that the NBFC make good on any losses from default on that share.

May/June 2021

48. The revised regulatory framework for NBFCs, effective from October 01, 2022, is known by what name?
(A) Priority Sector Lending (PSL) Framework
(B) Scale Based Regulation (SBR)
(C) Co-Lending Model (CLM)
(D) Prudential Norms on Asset Classification (PNAC)

Ans :

(B) Scale Based Regulation (SBR)
The Reserve Bank of India introduced a revised regulatory framework for Non-Banking Financial Companies to address the systemic risks associated with their growing size and interconnectedness. This new framework, which became effective on October 1, 2022, is officially termed the Framework for Scale Based Regulation (SBR), categorizing NBFCs into different layers.

Oct/Nov 2010

49. The Scale Based Regulation (SBR) framework for NBFCs comprises four layers. Which layer is ideally expected to be empty?
(A) NBFC - Base Layer (NBFC-BL)
(B) NBFC - Top Layer (NBFC-TL)
(C) NBFC - Middle Layer (NBFC-ML)

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(C) Investment not exceeding ₹10 crore and turnover not exceeding ₹50 crore.
(D) Investment not exceeding ₹100 crore and turnover not exceeding ₹500 crore.

Ans :

(A) Investment not exceeding ₹50 crore and turnover not exceeding ₹250 crore.
The highest tier in the MSME classification is the medium enterprise. For an enterprise to fall into this category, its investment in plant and machinery or equipment must not exceed ₹50 crore. Additionally, its annual turnover must not exceed ₹250 crore. Breaching either of these limits would place it outside the MSME definition.

Oct/Nov 2007

9. What is the mandatory registration that all enterprises must complete online to be recognized as an MSME and which all lenders may obtain from the entrepreneurs?
(A) Goods and Services Tax (GST) Registration
(B) Permanent Account Number (PAN) Registration
(C) Udyam Registration Certificate
(D) Registrar of Companies (RoC) Certificate

Ans :

(C) Udyam Registration Certificate
To be formally recognized under the MSMED Act and to avail the associated benefits, all micro, small, and medium enterprises are required to register on the Udyam Registration portal. Upon successful registration, they receive an 'Udyam Registration Certificate'. Lenders use this certificate to verify the MSME status of the entrepreneur for credit and other facilities.

May/June 2025

10. If a small enterprise with an investment of ₹8 crore and turnover of ₹40 crore increases its turnover to ₹55 crore while the investment remains unchanged, what will be its new classification status?
(A) It will be placed in the next higher category, i.e., medium enterprise.
(B) It will be immediately reclassified as a medium enterprise.
(C) It will remain a small enterprise for one more financial year.
(D) It will be de-registered as an MSME.

Ans :

(A) It will be placed in the next higher category, i.e., medium enterprise.
The composite criteria rules state that if an enterprise crosses the ceiling limits specified for its present category in either of the two criteria (investment or turnover), it will cease to exist in that category. It will then be placed in the next higher category. Here, the turnover has crossed the ₹50 crore limit for a small enterprise.

Oct/Nov 2019

11. Under what specific condition can an enterprise be reclassified into a lower category (e.g., from medium to small)?
(A) If its investment goes below the ceiling limit for the lower category.
(B) If its turnover goes below the ceiling limit for the lower category.
(C) If the enterprise makes a formal request for re-classification to a lower category.
(D) If it goes below the specified ceiling limits in both investment and turnover criteria.

Ans :

(D) If it goes below the specified ceiling limits in both investment and turnover criteria.
For an enterprise to be placed in a lower category, a stricter rule applies compared to upward classification. The enterprise will be moved to a lower category only if it falls below the specified ceiling limits for its current category in both the investment criterion and the turnover criterion simultaneously. This prevents frequent changes in status.

May/June 2014

12. For the purpose of MSME classification, how are multiple business entities listed against the same Permanent Account Number (PAN) treated?
(A) Each entity is treated as a separate enterprise based on its own GSTIN.
(B) All entities are collectively treated as one enterprise, and their figures are aggregated.
(C) Only the entity with the highest turnover is considered for classification.
(D) The entrepreneur can choose which entity to register as an MSME.

Ans :

(B) All entities are collectively treated as one enterprise, and their figures are aggregated.
To prevent businesses from splitting into smaller units to claim MSME benefits, the rules mandate

NODIA

(A) 1, 2 and 3 only
(B) 2, 4 and 5 only
(C) 1, 2 and 5 only
(D) 1, 3, 4 and 5 only

Ans :

(C) 1, 2 and 5 only
Statement 1 is correct. Statement 2 is correct, as bridge loans are not permitted. Statement 5 is correct, subject to criteria. However, Statement 3 is incorrect; shares and debentures cannot be accepted as collateral for secured loans. Statement 4 is also incorrect; banks are prohibited from issuing such guarantees. Therefore, only statements 1, 2, and 5 are correct.

May/June 2014

54. Assertion (A): The Co-Lending Model (CLM) requires the partner NBFC to retain a portion of the co-lent loan on its own books.
Reason (R): This ensures the NBFC has "skin in the game," aligning its interests with the bank in terms of credit appraisal and monitoring, as it shares the credit risk.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; the CLM mandates a minimum 20% retention by the NBFC. Reason (R) correctly explains the rationale behind this rule. By forcing the NBFC to share in the potential losses, the "skin in the game" principle ensures that the NBFC conducts thorough due diligence and maintains high-quality underwriting and monitoring standards, which benefits both co-lenders.

Oct/Nov 2007

55. In the context of an NBFC-MFI, what is the purpose of excluding education and medical expenses from the calculation of a borrower's total indebtedness?
(A) To actively discourage borrowing for non-productive purposes like consumption or social events.
(B) Because these specific types of loans are always fully guaranteed by a central or state government scheme.
(C) To significantly simplify the loan application paperwork and expedite the overall approval process for the borrower.
(D) To ensure access to critical social services without breaching the micro-credit eligibility limit.

Ans :

(D) To ensure access to critical social services without breaching the micro-credit eligibility limit.
The total indebtedness ceiling of ₹1,25,000 is designed to prevent over-borrowing for general purposes. By specifically excluding loans for education and medical expenses from this calculation, the regulation acknowledges their critical, non-discretionary nature. This allows households to access essential services without being disqualified from receiving micro-credit for income-generating or other vital activities.

May/June 2025

56. Which of the following statements accurately describes a restriction on co-lending arrangements?
(A) A bank is not allowed to enter into a co-lending arrangement with an NBFC that belongs to the bank's promoter group.
(B) A bank can enter into a co-lending arrangement with any NBFC, including one belonging to its own promoter group.
(C) Foreign banks with less than 20 branches are permitted to participate in the Co-Lending Model.
(D) Co-lending is only permitted between banks and NBFC-MFIs, not other types of NBFCs.

Ans :

(A) A bank is not allowed to enter into a co-lending arrangement with an NBFC that belongs to the bank's promoter group.
To avoid conflicts of interest and ensure arm's-length transactions, the guidelines for the Co-Lending Model (CLM) place a specific restriction based on corporate structure. A bank is explicitly prohibited from entering into a co-lending arrangement with an NBFC that is part of the same promoter group, ensuring independence in the lending partnership.

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Oct/Nov 2023

41. Apart from their core lending activities, what other role can NBFC-MFIs play in the context of government initiatives?
(A) Act as rating agencies for government bonds
(B) Act as depositories for government securities
(C) Act as channelising agents for special government schemes
(D) Act as primary dealers in the government securities market

Ans :

(C) Act as channelising agents for special government schemes
Leveraging their extensive reach and grassroots-level presence, NBFC-MFIs are permitted to take on an additional role beyond their own lending operations. They can act as channelising agents for special schemes that are launched by Central or State Government Agencies, helping to disburse benefits and implement programs at the last mile.

May/June 2011

42. The RBI's "Co-Lending Model" (CLM) is available to banks for partnering with NBFCs, but it is NOT applicable to which of the following categories of banks?
(A) Small Finance Banks (SFBs) and Regional Rural Banks (RRBs)
(B) Public Sector Banks
(C) Private Sector Banks
(D) Foreign banks with more than 20 branches

Ans :

(A) Small Finance Banks (SFBs) and Regional Rural Banks (RRBs)
The Co-Lending Model (CLM) was introduced to enhance credit flow to the priority sector. While it is available to most commercial banks, the guidelines explicitly state that the model is not applicable to certain types of banks. This exclusion list includes Small Finance Banks (SFBs), Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), and Local Area Banks (LABs).

Oct/Nov 2012

43. Identify the correct pair regarding the minimum loan share retention under the Co-Lending Model (CLM).
(A) Bank : Minimum 80% share
(B) Bank : Minimum 50% share
(C) NBFC : Minimum 10% share
(D) NBFC : Minimum 20% share

Ans :

(D) NBFC : Minimum 20% share
A fundamental requirement of the Co-Lending Model is risk sharing between the partner institutions. The framework mandates that the partner Non-Banking Financial Company (NBFC) is required to retain a minimum of 20% of the individual loan on its own books. Consequently, the bank's share would be a maximum of 80% of the loan.

May/June 2007

44. Under the Co-Lending Model (CLM), if a bank opts for "Discretionary Rejection," what does this arrangement become akin to?
(A) A securitisation transaction
(B) A direct assignment transaction
(C) A loan syndication
(D) An inter-bank participation certificate

Ans :

(B) A direct assignment transaction
The Master Agreement under CLM can offer the bank two options. One is mandatory sharing. The other is "Discretionary Rejection," where the bank retains the right to reject certain loans originated by the NBFC after its own due diligence. This structure, where the bank selectively takes over pre-originated loans, is considered to be akin to a direct assignment transaction.

Oct/Nov 2025

45. Based on this source, which statement about customer servicing under CLM is correct?
"38.7.2 Customer Related Issues"
"The operational aspects pertaining to the customer interaction and servicing under CLM are as follows:
(i) The NBFC shall be the single point of interface for the customers. ...
(iii) Details of the arrangement to be disclosed to the customers and their consent obtained. ...
(vi) The NBFC should generate a single unified statement of the customer account. ...
(vii) Suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with the NBFC within 30 days."
(A) The bank and the NBFC will have separate points of interface for the customer.

NODIA

utilize the loan amount before repayments begin. It is stipulated that the moratorium period between the loan disbursement and the due date of the first instalment must be at least equivalent to the frequency of the instalments (e.g., at least one week for weekly repayments).

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CHAPTER 39

Micro, Small and Medium Enterprises in India

Oct/Nov 2016

1. According to the policy for Small, Tiny and Village Enterprises of August 1991, what was the primary strategic shift intended to infuse more vitality into MSMEs?
   (A) To replace competitiveness with protection from foreign competition.
   (B) To replace protection with competitiveness in the face of an open market.
   (C) To increase government subsidies and direct financial grants.
   (D) To nationalize all small-scale industries for better control.

Ans :

(B) To replace protection with competitiveness in the face of an open market.
The 1991 policy marked a significant shift in the government's approach towards MSMEs in the context of liberalization. It aimed to move away from a protectionist regime and instead foster competitiveness. This strategy was designed to help MSMEs grow and thrive by facing foreign competition and operating within an open market environment, supported by improved infrastructure and technology.

May/June 2021

2. Which two key institutions were created to accelerate finance and technical services to the MSME sector following the 1991 policy framework?
   (A) Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernization Fund (TDMF)
   (B) Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD)
   (C) Industrial Finance Corporation of India (IFCI) and State Financial Corporations (SFCs)
   (D) Ministry of Finance and the Planning Commission

Ans :

(A) Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernization Fund (TDMF)
To support the policy of enhancing MSME competitiveness, dedicated institutional mechanisms were established. The Small Industries Development Bank of India (SIDBI) was created to provide focused financial assistance. Concurrently, a Technology Development and Modernization Fund (TDMF) was set up to accelerate the flow of technical services and promote technological upgrades within the MSME sector.

Oct/Nov 2010

3. Which of the following is NOT considered a primary objective achieved by MSMEs in India?
   (A) Significant export earnings
   (B) Contribution towards defence production
   (C) High capital investment requirements
   (D) Development of appropriate indigenous technology

Ans :

(C) High capital investment requirements
MSMEs are characterized by their low investment requirements, which is one of their key strengths and contributions to the economy. They achieve several important objectives, including generating significant export earnings, substituting imports, contributing to defence production, and fostering indigenous technology. High capital investment is typically associated with large-scale industries, not MSMEs, making it an incorrect objective.

May/June 2005

4. Identify a significant limitation commonly associated with the operational structure of Micro, Small, and Medium Enterprises (MSMEs).
   (A) High degree of professionalism and specialized management

NODIA

(B) Strong ability to face the impact of the WTO regime
(C) Substantial contribution towards Research & Development (R&D)
(D) Concentration of functions in one or two persons

Ans :

(D) Concentration of functions in one or two persons
A typical limitation of MSMEs is the concentration of key business functions, such as finance, marketing, and operations, in the hands of one or two individuals, often the owner. This can lead to operational bottlenecks, a lack of specialized expertise, and challenges in scaling the business, contrasting with the structured, professional management seen in larger corporations.

Oct/Nov 2022

5. What significant terminological change was introduced by the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006?
(A) The word 'Company' replaced the word 'Firm'.
(B) The word 'Unit' replaced the word 'Establishment'.
(C) The word 'Enterprise' replaced the word 'Industry'.
(D) The word 'Business' replaced the word 'Undertaking'.

Ans :

(C) The word 'Enterprise' replaced the word 'Industry'.
The MSMED Act, 2006, broadened the definition and scope of the sector. A key change was the replacement of the term 'Industry' with 'Enterprise'. This new term encompassed a wider range of activities, including not just manufacturing and production of goods but also the provision or rendering of services, thereby providing a more inclusive framework.

May/June 2018

6. As per the revised criteria notified on June 26, 2020, what are the investment and turnover limits for an enterprise to be classified as a 'micro enterprise'?
(A) Investment not exceeding ₹10 crore and turnover not exceeding ₹50 crore.
(B) Investment not exceeding ₹1 crore and turnover not exceeding ₹5 crore.
(C) Investment not exceeding ₹5 crore and turnover not exceeding ₹10 crore.
(D) Investment not exceeding ₹25 lakh and turnover not exceeding ₹1 crore.

Ans :

(B) Investment not exceeding ₹1 crore and turnover not exceeding ₹5 crore.
The Government of India's notification introduced a composite criteria for MSME classification. For an entity to be categorized as a micro enterprise, its investment in plant and machinery or equipment must not exceed ₹1 crore, and its annual turnover must not exceed ₹5 crore. Both conditions must be considered for the classification.

Oct/Nov 2011

7. An enterprise is classified as a 'small enterprise' under the MSMED Act, 2006, if its investment in plant and machinery or equipment and its turnover satisfy which of the following conditions?
(A) Investment does not exceed ₹5 crore and turnover does not exceed ₹25 crore.
(B) Investment does not exceed ₹1 crore and turnover does not exceed ₹5 crore.
(C) Investment does not exceed ₹50 crore and turnover does not exceed ₹250 crore.
(D) Investment does not exceed ₹10 crore and turnover does not exceed ₹50 crore.

Ans :

(D) Investment does not exceed ₹10 crore and turnover does not exceed ₹50 crore.
According to the revised classification effective from July 1, 2020, a small enterprise is defined based on a composite criterion. The investment in plant and machinery or equipment should not be more than ₹10 crore, and the annual turnover should not exceed ₹50 crore. These limits are significantly higher than those for a micro enterprise.

May/June 2009

8. To be classified as a 'medium enterprise' according to the Gazette Notification S.O. 2119 (E) dated June 26, 2020, what are the maximum permissible limits for investment and turnover?
(A) Investment not exceeding ₹50 crore and turnover not exceeding ₹250 crore.
(B) Investment not exceeding ₹20 crore and turnover not exceeding ₹100 crore.

NODIA

(D) NBFC - Upper Layer (NBFC-UL)

Ans :

(B) NBFC - Top Layer (NBFC-TL)
The SBR framework structures NBFCs into four layers: Base, Middle, Upper, and Top. The Top Layer (NBFC-TL) is designed for NBFCs that are identified as posing extreme systemic risk, which would warrant enhanced and bank-like regulation. The framework explicitly states that the Top Layer is ideally expected to be empty, serving as a contingent space.

May/June 2005

50. According to the Scale Based Regulation (SBR) framework, which of the following statements about the categorization of NBFCs is incorrect?
(A) Standalone Primary Dealers (SPD) will always remain in the Base Layer.
(B) NBFC-P2P and NBFC-AA will always remain in the Base Layer.
(C) Deposit-taking NBFCs (NBFC-D) will be included in the Middle Layer or the Upper Layer.
(D) Government owned NBFCs shall be placed in the Base Layer or Middle Layer.

Ans :

(A) Standalone Primary Dealers (SPD) will always remain in the Base Layer.
This statement is incorrect. The guidelines for SBR categorization specify that Standalone Primary Dealers (SPDs) and Infrastructure Debt Fund-NBFCs (IDF-NBFCs) will always remain in the Middle Layer, not the Base Layer. The other statements correctly describe the placement rules for NBFC-P2P, NBFC-D, and Government owned NBFCs within the SBR framework.

Oct/Nov 2022

51. Match the NBFC type (List-I) with the regulatory layer(s) it can belong to under the Scale Based Regulation (SBR) framework (List-II).
List-I
P. NBFC-P2P
Q. NBFC-D (Deposit Taking)
R. NBFC-ICC
S. IDF-NBFC
List-II
1. Middle Layer or Upper Layer
2. Always in the Middle Layer
3. Always in the Base Layer
4. Can lie in any of the layers

(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(C) P-3, Q-1, R-4, S-2
The SBR framework specifies the placement of different NBFCs. NBFC-P2P will always remain in the Base Layer (P-3). Deposit-taking NBFCs (NBFC-D) will be in the Middle or Upper Layer (Q-1). NBFC-ICC (Investment and Credit Company) can lie in any of the layers depending on size and risk (R-4). IDF-NBFCs will always remain in the Middle Layer (S-2).

May/June 2018

52. Identify the incorrect pair of an NBFC-MFI loan criterion and its corresponding limit or condition.
(A) Household Income Ceiling (Rural) : Not exceeding ₹1,25,000
(B) Loan Tenure for loan > ₹30,000 : Not less than 24 months
(C) First Cycle Loan Amount : Maximum ₹75,000
(D) Total Indebtedness : Maximum ₹1,50,000

Ans :

(D) Total Indebtedness : Maximum ₹1,50,000
The pair stating the total indebtedness limit is incorrect. The maximum total indebtedness for a borrower of an NBFC-MFI is capped at ₹1,25,000, not ₹1,50,000. This limit is exclusive of loans taken for education and medical expenses. The other pairs correctly state the annual income ceiling for rural households, minimum loan tenure for larger loans, and the first cycle loan amount limit.

Oct/Nov 2016

53. Consider the following statements about bank finance to NBFCs:
1. Banks can finance NBFCs against second-hand assets.
2. Banks are prohibited from granting any form of bridge loans to NBFCs.
3. Shares and debentures can be accepted as primary security for loans to NBFCs.
4. Banks can issue guarantees for inter-company deposits placed with NBFCs.
5. Banks can extend financial assistance to eligible Factoring Companies.

Which combination of the above statements is correct?

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a consolidated view. All units with Goods and Services Tax Identification Numbers (GSTINs) listed against the same PAN are treated as a single enterprise. The investment and turnover figures of all such entities are aggregated to determine the final MSME classification.

Oct/Nov 2024

13. How is the 'investment in plant and machinery or equipment' calculated for an existing enterprise versus a new enterprise without an ITR?
(A) For both, it is based on the promoter's self-declaration.
(B) For both, it is based on the written down value (WDV) certified by a chartered accountant.
(C) For existing enterprises, it is linked to the ITR; for new enterprises, it is based on self-declaration.
(D) For existing enterprises, it is based on original cost; for new enterprises, it is based on invoice value.

Ans :

(C) For existing enterprises, it is linked to the ITR; for new enterprises, it is based on self-declaration.
The calculation method for investment differs based on the enterprise's age. For an existing enterprise, the investment value is linked to the Income Tax Return (ITR) of the previous financial years. For a new enterprise that has not yet filed an ITR, the investment value is accepted based on the promoter's self-declaration until it files its first ITR.

May/June 2017

14. In the context of MSME classification, the expression "plant and machinery or equipment" includes all tangible assets except which of the following?
(A) Computers and office equipment
(B) Second-hand machinery
(C) Vehicles used for goods transportation
(D) Land and building, furniture and fittings

Ans :

(D) Land and building, furniture and fittings
As per the definition derived from the Income Tax Rules, 1962, the calculation of investment in "plant and machinery or equipment" is specific. It includes all tangible assets of the enterprise but explicitly excludes the value of land, buildings, furniture, and fittings. This ensures the focus remains on the core productive assets of the business.

NODIA

Oct/Nov 2005

15. For calculating the investment value for MSME classification, which value of the assets is considered as per the Udyam Registration form?
(A) The Written Down Value (WDV) as at the end of the Financial Year.
(B) The original purchase price of the assets, excluding GST.
(C) The current market value of the assets as assessed by a valuer.
(D) The average of the original price and the current WDV.

Ans :

(A) The Written Down Value (WDV) as at the end of the Financial Year.
The Udyam Registration portal captures the depreciated cost of assets. The value to be considered for investment calculation is the Written Down Value (WDV) as of the end of the relevant financial year, as defined in the Income Tax Act. This is a shift from the earlier practice of using the original cost of acquisition.

May/June 2020

16. Which of the following components must be excluded when calculating the 'turnover' of an enterprise for MSME classification purposes?
(A) Domestic sales of goods
(B) Exports of goods or services or both
(C) Revenue from services rendered within India
(D) Sales inclusive of Goods and Services Tax (GST)

Ans :

(B) Exports of goods or services or both
To encourage enterprises to increase their exports without fearing the loss of MSME status, the classification rules specify a key exclusion. While calculating the total turnover for determining the MSME category, the value of exports of both goods and services is completely excluded. This provides a significant incentive for export-oriented MSMEs.

Oct/Nov 2015

17. According to the rules for MSME classification, after which date did PAN and GSTIN become mandatory for the calculation of turnover?
(A) March 31, 2020

(D) To offer skill development and training courses for entrepreneurs.

Ans :

(A) To enable MSEs to file online applications regarding delayed payments from buyers.
The MSME SAMADHAAN portal is a specific initiative to address the persistent issue of delayed payments faced by Micro and Small Enterprises. It provides an online platform where MSEs can file applications against buyers who have defaulted on payments. This creates a formal mechanism to track and pursue such cases, empowering the MSE suppliers.

Oct/Nov 2012

27. Which of the following can participate as 'Sellers' on the Trade Receivables Discounting System (TReDS) platform?
(A) Corporates and Public Sector Undertakings (PSUs)
(B) Banks and NBFC-Factors
(C) Any business entity with a valid GSTIN
(D) Only Micro and Small Enterprises (MSMEs)

Ans :

(D) Only Micro and Small Enterprises (MSMEs)
The TReDS platform is exclusively designed to help MSMEs manage their working capital by monetizing their trade receivables. While corporates, PSUs, and government departments participate as buyers, and banks/NBFCs participate as financiers, the role of the 'seller'—the entity whose invoices are being discounted—is reserved only for MSMEs.

May/June 2011

28. On the TReDS platform, if a factoring unit (FU) is created by the buyer, the transaction is known as what?
(A) Factoring
(B) Reverse factoring
(C) Forfaiting
(D) Bill discounting

Ans :

(B) Reverse factoring
The TReDS platform allows for the creation of a factoring unit (FU) by either the MSME seller or the corporate buyer. If the MSME seller initiates the transaction by uploading the invoice, it is called factoring. However, if the buyer initiates the process by accepting the invoice on the platform, it is termed reverse factoring.

Oct/Nov 2020

29. Which organization acts as the nodal agency for the implementation of the Performance and Credit Rating Scheme for MSEs?
(A) Small Industries Development Bank of India (SIDBI)
(B) Reserve Bank of India (RBI)
(C) National Small Industries Corporation (NSIC)
(D) Indian Banks' Association (IBA)

Ans :

(C) National Small Industries Corporation (NSIC)
The Performance and Credit Rating scheme was formulated to provide a trusted third-party opinion on the capabilities and creditworthiness of Micro and Small Enterprises. The National Small Industries Corporation (NSIC) is designated as the nodal agency responsible for implementing this scheme. It carries out this function by working with a panel of approved rating agencies.

May/June 2022

30. Consider the following statements regarding the Performance and Credit Rating Scheme for MSEs:
Statement 1: It provides an independent evaluation of an MSE's strengths and weaknesses, helping banks manage credit risk.
Statement 2: The rating fee structure is based on the MSE's profit, and there is no provision for reimbursement of the fee.
Which of the statements is/are correct?
(A) Only Statement 1
(B) Only Statement 2
(C) Both Statement 1 and Statement 2
(D) Neither Statement 1 nor Statement 2

Ans :

(A) Only Statement 1
Statement 1 is correct as the rating provides banks with an objective assessment of an MSE's creditworthiness. Statement 2 is incorrect because the fee structure is based on the MSE's turnover, not profit. Furthermore, the scheme includes a provision for partial reimbursement of the rating fee to the MSE through the National Small Industries Corporation (NSIC).

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(LLP) structure was introduced. The Limited Liability Partnership Act, 2008, was enacted to allow MSMEs to adopt a corporate form that offers the flexibility of a partnership along with the significant advantage of limited liability for its partners.

May/June 2006

22. Under the Public Procurement Policy for MSEs, what is the target percentage of procurement that every Central Ministry, Department, and PSU must achieve from the MSE Sector?
(A) 15%
(B) 25%
(C) 20%
(D) 30%

Ans :

(B) 25%
To provide marketing support and ensure a steady demand for products and services from Micro and Small Enterprises (MSEs), the government implemented the Public Procurement Policy. This policy mandates that every Central Ministry, Department, and Public Sector Undertaking (PSU) must procure a minimum of 25% of their total annual purchases from the MSE sector.

Oct/Nov 2017

23. What is the primary role of a Certified Credit Counsellor (CCC) under the scheme launched by SIDBI in July 2017?
(A) To provide collateral security for MSME loans.
(B) To directly sanction and disburse loans to MSMEs.
(C) To conduct audits of MSME accounts on behalf of banks.
(D) To assist MSMEs in preparing professional project reports for banks.

Ans :

(D) To assist MSMEs in preparing professional project reports for banks.
The Certified Credit Counsellor (CCC) scheme was introduced to bridge the information gap between MSMEs and lenders. CCCs, who are institutions or individuals registered with SIDBI, provide professional assistance to MSMEs in preparing detailed and viable project reports. This, in turn, helps banks make more informed and quicker credit decisions, improving credit flow to the sector.

NODIA

May/June 2008

24. A corporate buyer fails to pay an MSE supplier for goods delivered on April 1. The agreed payment date was April 30. The payment is finally made on July 31. If the RBI notified Bank Rate is 4%, at what interest rate must the buyer pay compound interest for the delayed period?
(A) 12% per annum
(B) 4% per annum
(C) 8% per annum
(D) 16% per annum

Ans :

(A) 12% per annum
As per the MSMED Act, 2006, if a buyer fails to make payment to an MSE supplier by the agreed date, they are liable to pay compound interest with monthly rests. The applicable interest rate is three times the Bank Rate notified by the RBI. In this case, with a Bank Rate of 4%, the penalty interest rate is $3 \times 4\% = 12\%$.

Oct/Nov 2013

25. According to the MSMED Act, 2006, payments for supplies made by Micro and Small Enterprise (MSE) units should be received on or before the agreed date, subject to a maximum period of how many days from delivery?
(A) 30 days
(B) 60 days
(C) 45 days
(D) 90 days

Ans :

(C) 45 days
To protect MSEs from liquidity crises caused by delayed payments, the MSMED Act, 2006, provides a legal framework for timely settlement. The Act stipulates that the buyer must make payment on or before the date agreed upon in writing. In any case, this period cannot exceed a maximum of 45 days from the date of delivery.

May/June 2015

26. What is the purpose of the 'MSME SAMADHAAN' portal launched by the Ministry of Micro, Small and Medium Enterprises?
(A) To enable MSEs to file online applications regarding delayed payments from buyers.
(B) To facilitate online registration for new MSMEs.
(C) To provide a platform for MSMEs to apply for government subsidies.

Oct/Nov 2010

54. Which of the following best defines a "cluster of MSMEs"?

(A) A group of enterprises located in different states but owned by the same parent company.

(B) A concentration of economic enterprises in a geographical area, producing a typical or complementary range of products/services.

(C) Any group of 10 or more MSMEs that form a cooperative society for marketing purposes.

(D) A virtual network of enterprises collaborating on a single large-scale project.

Ans :

(B) A concentration of economic enterprises in a geographical area, producing a typical or complementary range of products/services.

A cluster is defined by its geographical proximity and industrial similarity. It refers to a concentration of enterprises within a specific area, like a few villages or a town, that are engaged in producing the same type of product or a range of complementary products and services, often sharing resources, skills, and facing similar challenges.

May/June 2005

55. What is the estimated contribution of India's various industrial, artisan, and micro enterprise clusters to its total manufactured exports?

(A) 25%

(B) 40%

(C) 75%

(D) 60%

Ans :

(D) 60%

MSME clusters play a vital role in India's international trade. Despite their individual small scale, their collective output is substantial. It is estimated that the more than 6,500 clusters spread across the country, encompassing artisanal, industrial, and micro enterprises, collectively contribute a significant 60% of the total manufactured exports from India, highlighting their economic importance.

Oct/Nov 2022

56. Which of the following is considered a key benefit of the cluster-based approach to lending for financial institutions?

(A) Availability of appropriate information for risk assessment.

(B) Increased administrative burden due to diverse borrowers.

(C) Higher risk due to concentration in a single industry.

(D) Inability to create specialized packages for borrowers.

Ans :

(A) Availability of appropriate information for risk assessment.

The cluster-based approach is beneficial for lenders because enterprises within a cluster share common characteristics, challenges, and opportunities. This homogeneity makes it easier for banks to gather relevant information, understand the business environment, and assess risks more accurately and efficiently, as compared to lending to isolated, disparate units across different sectors and locations.

May/June 2018

57. A public sector bank is sanctioning a loan of ₹12 lakh to a unit in the MSE sector. The unit is not financed under the PMEGP scheme. What is the most appropriate action for the bank regarding collateral security?

(A) The bank must mandatorily take collateral security for the entire loan amount.

(B) The bank must not accept any collateral security as the loan is below ₹25 lakh.

(C) The bank may decide to dispense with collateral security and should encourage obtaining CGTMSE cover.

(D) The bank can only dispense with collateral if the loan is less than ₹10 lakh.

Ans :

(C) The bank may decide to dispense with collateral security and should encourage obtaining CGTMSE cover.

The guidelines state that for loans up to ₹10 lakh to MSE units, no collateral should be taken. For loans above ₹10 lakh and up to ₹25 lakh, banks may decide to dispense with the collateral requirement if they deem it fit. In such cases, they are encouraged to obtain cover under the Credit Guarantee Scheme (CGTMSE).

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Oct/Nov 2023

31. In what year was the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) established by the Ministry of MSME and SIDBI?
(A) 2000
(B) 1991
(C) 1999
(D) 2006

Ans :

(A) 2000
To address the common hurdle of providing collateral security or third-party guarantees for accessing credit, the CGTMSE was established. The trust was set up by the Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, and the Small Industries Development Bank of India (SIDBI) in August 2000 to provide guarantees for collateral-free loans to MSEs.

May/June 2016

32. Which of the following is NOT listed as an Eligible Lending Institution (MLI) for coverage under the Credit Guarantee Fund Scheme for Banks (CGS-I)?
(A) Commercial Banks
(B) Unregistered FinTech companies
(C) Regional Rural Banks (RRBs)
(D) Small Finance Banks (SFBs)

Ans :

(B) Unregistered FinTech companies
The CGS-I scheme specifies the institutions eligible to lend under its guarantee cover. These include scheduled commercial banks, Regional Rural Banks (RRBs), Small Finance Banks (SFBs), specified NBFCs, and FinTech NBFCs registered with the RBI. Unregistered FinTech companies are not eligible to participate as Member Lending Institutions (MLIs) under the scheme.

Oct/Nov 2009

33. Under the CGS-I scheme, what is the maximum credit facility (both fund and non-fund based) that can be extended by a Scheduled Commercial Bank (SCB) to a single eligible borrower without any collateral security?
(A) ₹50 lakh
(B) ₹200 lakh
(C) ₹100 lakh
(D) ₹500 lakh

Ans :

(B) ₹200 lakh
The CGS-I scheme has different limits for different types of lending institutions. For Scheduled Commercial Banks (SCBs), select Financial Institutions, and NBFCs, the scheme covers collateral-free credit facilities extended to a single eligible borrower up to a maximum amount of ₹200 lakh. For RRBs and SFBs, this limit is lower at ₹50 lakh.

May/June 2023

34. A bank wishes to sanction a credit facility of ₹250 lakh to an MSE. The borrower can offer collateral security for ₹50 lakh. How can the bank structure this loan using the CGTMSE Hybrid Security Product?
(A) The bank can cover up to ₹200 lakh under the CGTMSE scheme and take collateral for the remaining ₹50 lakh.
(B) The entire ₹250 lakh loan must be covered by collateral security.
(C) The CGTMSE scheme cannot be used as the total facility exceeds ₹200 lakh.
(D) The bank can only cover the unsecured portion of ₹200 lakh if CGTMSE has a first charge on the collateral.

Ans :

(A) The bank can cover up to ₹200 lakh under the CGTMSE scheme and take collateral for the remaining ₹50 lakh.
The Hybrid Security Product allows partial collateralization. For a facility exceeding ₹200 lakh, the bank can cover a portion up to ₹200 lakh under the scheme, with CGTMSE having a notional second charge on the collateral. The remaining amount beyond the scheme-covered part can be secured by primary and/or collateral security with a pari-passu charge.

NODIA

Oct/Nov 2018

35. For a working capital facility provided under the CGS-I scheme, what is the specified guarantee period?
(A) For the tenure of the loan.
(B) 1 year, renewable annually.
(C) 5 years.
(D) 7 years.

Ans :

(C) 5 years.

The guarantee period under CGS-I varies based on the type of loan. For term loans or composite loans, the guarantee is available for the entire tenure of the loan. However, if the credit facility consists only of working capital, the guarantee cover is provided for a period of 5 years, or for a block of 5 years.

May/June 2007

36. What is the maximum extent of guarantee available for a credit facility of ₹4 lakh extended to a Micro Enterprise?
(A) 75% of the amount in default, subject to a maximum of ₹3 lakh.
(B) 80% of the amount in default, subject to a maximum of ₹3.2 lakh.
(C) 100% of the amount in default.
(D) 85% of the amount in default, subject to a maximum of ₹3.4 lakh.

Ans :

(D) 85% of the amount in default, subject to a maximum of ₹3.4 lakh.
For Micro Enterprises with a credit facility up to ₹5 lakh, the guarantee coverage is 85% of the amount in default. The maximum guarantee amount in this slab is capped at ₹4.25 lakh. For a ₹4 lakh loan, the coverage would be 85% of the default amount, which is ₹3.4 lakh.

Oct/Nov 2025

37. A loan of ₹70 lakh is extended to a unit located in Sikkim, which is run by a woman entrepreneur. What is the applicable guarantee cover?
(A) 80% of the amount in default subject to a maximum of ₹40 lakh.
(B) 50% of the amount in default subject to a maximum of ₹50 lakh.
(C) 75% of the amount in default subject to a maximum of ₹150 lakh.
(D) 85% of the amount in default subject to a maximum of ₹4.25 lakh.

Ans :

(C) 75% of the amount in default subject to a maximum of ₹150 lakh.
There is a specific category for "Women entrepreneurs/Units located in North East Region (incl. Sikkim)". However, it is also clarified that this is for loans other than credit up to ₹5 lakh to micro enterprises. For facilities above ₹50 lakh and up to ₹200 lakh, the applicable rate is 75% of the default amount, capped at ₹150 lakh, similar to the general category.

May/June 2012

38. A bank has provided a ₹40 lakh loan to a Micro Enterprise. The unit defaults on the entire amount. Based on the CGTMSE guarantee cover table (w.e.f. April 01, 2018), what is the maximum claim amount the bank can receive from CGTMSE?
(A) ₹40.00 lakh
(B) ₹30.00 lakh
(C) ₹37.50 lakh
(D) ₹34.00 lakh

Ans :

(B) ₹30.00 lakh
The loan amount of ₹40 lakh falls in the category 'Above ₹5 lakh & upto ₹50 lakh' for Micro Enterprises. For this slab, the guarantee cover is 75% of the amount in default, subject to a maximum of ₹37.50 lakh. Therefore, the claim amount would be 75% of ₹40 lakh, which is ₹30 lakh.

Oct/Nov 2014

39. Under the Credit Guarantee Scheme for NBFCs (CGS-II), what is the maximum credit facility for MSE Retail Trade that is covered?
(A) ₹50 lakh
(B) ₹200 lakh
(C) ₹250 lakh
(D) ₹100 lakh

Ans :

(D) ₹100 lakh
The CGS-II scheme for NBFCs covers credit facilities up to ₹200 lakh for the general MSME sector. However, for a specific sub-sector, MSE Retail Trade, there is a lower ceiling. Under this scheme, the credit facility for MSE Retail Trade is covered up to a maximum amount of ₹100 lakh per eligible borrower.

May/June 2019

40. Under the CGS-II scheme for NBFCs, within how many days must the Annual Guarantee Fee (AGF) be paid from the date of submission of the portfolio batch or the date of the Demand Advice (CGDAN)?
(A) Within 30 days, whichever is earlier.
(B) Within 15 days, whichever is earlier.
(C) Within 45 days, whichever is later.

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(D) Within 60 days, whichever is later.

Ans :

(A) Within 30 days, whichever is earlier.
Timely payment of the guarantee fee is crucial for the guarantee cover to commence. The CGS-II guidelines stipulate that the specified Annual Guarantee Fee for each portfolio batch must be paid within 30 days of submitting the batch or from the date of the Demand Advice (CGDAN) for the fee, whichever event occurs earlier.

Oct/Nov 2006

41. The Credit Guarantee Scheme for Subordinate Debt (CGSSD) was intended for MSMEs that were stressed as on 30th April 2020 and met which of the following criteria?
(A) The account was classified as NPA on January 1, 2016.
(B) The account was a new account opened after April 30, 2020.
(C) The account was standard as on January 1, 2016, and in regular operations during FY 2018-19 and 2019-20.
(D) The account had already availed restructuring under a different scheme.

Ans :

(C) The account was standard as on January 1, 2016, and in regular operations during FY 2018-19 and 2019-20.
The CGSSD, or Distressed Assets Fund, was a specific scheme targeting a particular set of stressed MSMEs. To be eligible, the MSME's account must have been standard as of January 1, 2016. Additionally, the unit needed to be in regular operation, whether standard or NPA, during the financial years 2018-19 and 2019-20.

May/June 2010

42. Under the revised guidelines for PM SVANidhi 2.0, what is the maximum loan amount and tenor available as the third loan to a street vendor?
(A) Up to ₹50,000 for a tenor of up to 36 months.
(B) Up to ₹20,000 for a tenor of up to 12 months.
(C) Up to ₹30,000 for a tenor of up to 24 months.
(D) Up to ₹1,00,000 for a tenor of up to 48 months.

Ans :

(A) Up to ₹50,000 for a tenor of up to 36 months.
The PM SVANidhi scheme follows a progressive loan structure. After successful repayment of the first loan (up to ₹10,000) and the second loan (up to ₹20,000), a street vendor becomes eligible for a third loan. This third loan has an enhanced limit of up to ₹50,000 and can be availed for a longer tenor of up to 36 months.

May/June 2016

43. What is the rate of interest subsidy provided under the PM SVANidhi 2.0 scheme for the 2nd and 3rd loans?
(A) 5% for all standard accounts.
(B) 9% for all accounts, irrespective of their status.
(C) 12% for accounts that are repaid before the due date.
(D) 7% for all standard accounts on respective claim dates.

Ans :

(D) 7% for all standard accounts on respective claim dates.
A key incentive of the PM SVANidhi scheme is the interest subsidy. For all loans, including the 2nd and 3rd tranches under the revised guidelines, an interest subsidy of 7% is provided. This subsidy is applicable only for the period the account remains standard and is claimed on the respective specified claim dates during the loan tenure.

Oct/Nov 2009

44. For a portfolio of Fresh 2nd Loans disbursed after June 1, 2022, what is the Maximum Guarantee Cover?
(A) 31.875%
(B) 10%
(C) 50%
(D) 8.25%

Ans :

(B) 10%
The credit guarantee structure for PM SVANidhi 2.0 is tiered and varies by loan cycle. For a portfolio of Fresh 2nd Loans, the guarantee is provided in layers (100% for the first 3% loss, 75% for loss between 3% and 10%). However, the overall 'Maximum Guarantee Cover' for this entire portfolio is capped at 10%.

May/June 2023

45. Match the loan type under PM SVANidhi 2.0 (List-I) with its corresponding Effective Guarantee Cover (List-II).

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	List-I (Loan Type)		List-II (Effective Guarantee Cover)
P.	Fresh 1st Loan	1.	8.25%
Q.	Fresh 2nd Loan	2.	6%
R.	3rd Loan	3.	31.875%

(A) P-1, Q-2, R-3
(B) P-3, Q-1, R-2
(C) P-2, Q-3, R-1
(D) P-3, Q-2, R-1

Ans :

(B) P-3, Q-1, R-2
The PM SVANidhi 2.0 guarantee table specifies the Effective Guarantee Cover for each loan cycle. For a Fresh 1st Loan, the effective cover is 31.875%. For a Fresh 2nd Loan, it is 8.25%. For the 3rd Loan, the effective guarantee cover is 6%. This structure reflects the varying risk profiles of the different loan tranches.

Oct/Nov 2018

46. The Credit Guarantee Scheme for Co-Lending (CGSCL) introduced by CGTMSE has two operational models. What does "Option/Model 2" refer to?
(A) Joint Lending by Banks and NBFCs
(B) Individual loan/credit facility guarantee
(C) Hybrid Security lending
(D) Direct Assignment

Ans :

(D) Direct Assignment
CGSCL operates under two distinct models for co-lending arrangements. "Option/Model 1" involves Joint Lending by a Bank and an NBFC, where the guarantee is for the individual loan. "Option/Model 2" pertains to a Direct Assignment model, where one MLI originates the loan and assigns a portion of it to another, facilitating the co-lending structure.

May/June 2007

47. Under the CGSCL scheme, what is the maximum unsecured credit facility (term loan and/or working capital) that can be extended by a pair of MLIs to a single eligible borrower?
(A) ₹100 lakh
(B) ₹50 lakh
(C) ₹200 lakh
(D) ₹250 lakh

Ans :

(A) ₹100 lakh
The CGSCL scheme provides distinct limits for secured and unsecured lending. While the limit for a credit facility secured by primary security is up to ₹200 lakh, there is a separate, lower cap for completely unsecured facilities. The maximum guarantee coverage for an unsecured credit facility under CGSCL is limited to ₹100 lakh per borrower.

Oct/Nov 2025

48. Assertion (A): Under CGSCL's "Hybrid Security" product, MLIs can obtain collateral security for a part of the credit facility.
Reason (R): This structure allows CGTMSE to have a notional second charge on the collateral security without separate documentation, facilitating coverage for larger loan amounts.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

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Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true; the hybrid product allows partial collateralization. Reason (R) is also true and correctly explains the mechanism. By taking a notional second charge, CGTMSE can extend its guarantee to the unsecured portion of a larger loan without complex documentation, thus enabling MLIs to support higher credit requirements while mitigating their risk.

May/June 2012

49. For a credit facility of ₹8.5 lakh sanctioned under the CGSCL scheme, what is the applicable Annual Guarantee Fee percentage per annum?
(A) 1.00%
(B) 1.25%
(C) 1.50%
(D) 1.75%

Ans :

(B) 1.25%
The Annual Guarantee Fee (AGF) under CGSCL is structured based on the credit facility amount. For credit facilities 'Above ₹5 lakh and upto ₹10 lakh', the applicable AGF is 1.25% per annum.

Since ₹8.5 lakh falls within this range, this is the correct fee percentage.

Oct/Nov 2014

50. Which of the following is/are the responsibilities of a Member Lending Institution (MLI) under the CGSCL scheme?

1. Exercise due diligence in sanction and safeguard of securities.
2. Notify default to the Trust promptly and lodge claims in time.
3. Cease all recovery efforts once the guarantee claim is paid by the Trust.

(A) Only 1
(B) Only 1 and 2
(C) Only 2 and 3
(D) All 1, 2, and 3

Ans :

(B) Only 1 and 2
MLIs have several key responsibilities. They must conduct proper due diligence during sanction, monitor the account, and safeguard any securities. They are also required to report defaults and file claims in a timely manner. Statement 3 is incorrect; MLIs must continue diligent recovery efforts even after the guarantee claim has been settled by the Trust.

May/June 2019

51. Under the Credit Guarantee Scheme for Co-Lending (CGSCL), what is the extent of guarantee coverage provided for an unsecured credit facility?

(A) 75% of the amount in default.
(B) 60% of the amount in default.
(C) 50% of the amount in default.
(D) 100% of the amount in default.

Ans :

(C) 50% of the amount in default.
The guarantee coverage under CGSCL is differentiated based on security. For credit facilities that are secured by primary security, the guarantee covers 75% of the amount in default. However, for unsecured credit facilities, the risk is higher, and therefore the guarantee coverage is lower, at 50% of the amount in default.

Oct/Nov 2006

52. Which of the following credit facilities would be considered ELIGIBLE for coverage under the CGTMSE schemes?

(A) A loan of ₹8 lakh to a Micro Enterprise already covered under the MUDRA Guarantee Scheme.
(B) A loan sanctioned against 100% collateral security, which is not a Hybrid Security model.
(C) A loan where the effective interest rate is higher than the rate prescribed by RBI/Trust guidelines.
(D) A loan to an eligible MSE borrower where the lender has not invoked any previous CGTMSE guarantee for that borrower.

Ans :

(D) A loan to an eligible MSE borrower where the lender has not invoked any previous CGTMSE guarantee for that borrower.
As per the scheme's exclusion criteria, facilities covered by other guarantee schemes (like MUDRA), fully collateralized loans (except Hybrid model), and loans with non-compliant interest rates are ineligible. A loan is eligible if, among other conditions, the lender has not previously invoked a CGTMSE guarantee for that specific borrower for a loan that remains unpaid.

May/June 2021

53. What is the maximum period within which a Member Lending Institution (MLI) can invoke the guarantee under a CGTMSE scheme, from the date the account is classified as NPA?

(A) Within 1 year from the NPA date.
(B) Within 2 years from the NPA date or lock-in period, whichever is later.
(C) Within 3 years from the NPA date or lock-in period, whichever is later.
(D) There is no time limit for invoking the guarantee.

Ans :

(C) Within 3 years from the NPA date or lock-in period, whichever is later.
To ensure claims are made in a timely manner, the CGTMSE schemes specify a clear deadline for guarantee invocation. The Member Lending Institution must invoke the guarantee within a period of 3 years from the date the account was classified as a Non-Performing Asset (NPA) or from the end of the lock-in period, whichever date is later.

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(B) March 31, 2021
(C) July 1, 2020
(D) April 1, 2022

Ans :

(B) March 31, 2021
To ensure transparent and verifiable calculation of turnover, the rules mandated the use of official tax data. It was specified that after March 31, 2021, having a Permanent Account Number (PAN) and Goods and Services Tax Identification Number (GSTIN) is mandatory. Turnover figures are linked to the Income Tax Act or CGST Act and GSTIN.

May/June 2013

18. As part of the Priority Sector Lending (PSL) guidelines, what is the specific sub-target for lending to Micro Enterprises for banks?
(A) 7.5% of ANBC or CEOBE, whichever is higher.
(B) 10% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE).
(C) 18% of ANBC or CEOBE, whichever is higher.
(D) 5% of total lending to the MSE sector.

Ans :

(A) 7.5% of ANBC or CEOBE, whichever is higher.
To ensure adequate credit flow to the smallest businesses, the Priority Sector Lending framework includes a specific sub-target. Banks are mandated to allocate at least 7.5% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever amount is higher, specifically for lending to the Micro Enterprises segment.

Oct/Nov 2021

19. Which of the following statements are correct regarding the recommendations of the Prime Minister's Task Force on MSMEs for banks?
1. Achieve 20% year-on-year growth in credit to micro and small enterprises.
2. Achieve 10% annual growth in the number of micro enterprise accounts.
3. Allocate 60% of total lending to the MSE sector to Medium enterprises.

(A) Only 1 and 2
(B) Only 2 and 3
(C) Only 1 and 3
(D) All 1, 2, and 3

Ans :

(A) Only 1 and 2
The Prime Minister's Task Force made specific recommendations to enhance credit delivery. Banks were advised to achieve a 20% year-on-year growth in credit to micro and small enterprises and a 10% annual growth in the number of micro enterprise accounts. The third statement is incorrect; it should be 60% of total lending to the MSE sector to Micro enterprises.

May/June 2024

20. Which institution is designated as the principal financial institution for the promotion, financing, and development of the MSME sector in India?
(A) Reserve Bank of India (RBI)
(B) National Bank for Agriculture and Rural Development (NABARD)
(C) Industrial Development Bank of India (IDBI)
(D) Small Industries Development Bank of India (SIDBI)

Ans :

(D) Small Industries Development Bank of India (SIDBI)
The Small Industries Development Bank of India (SIDBI) acts as the apex regulatory and development body for the MSME sector. Its primary role is to promote, finance, and develop MSMEs, either directly or indirectly through other financial institutions. It also coordinates the functions of various institutions engaged in similar activities, ensuring a cohesive approach.

Oct/Nov 2008

21. To facilitate the corporatization of MSMEs and provide them with the benefits of a corporate structure with limited liability, which Act was enacted in 2008?
(A) The Indian Companies Act, 2013
(B) The MSMED Act, 2006
(C) The Limited Liability Partnership Act, 2008
(D) The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002

Ans :

(C) The Limited Liability Partnership Act, 2008
Recognizing that traditional partnership firms carried unlimited liability and full incorporation was complex, the Limited Liability Partnership

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Oct/Nov 2011

58. To enable MSE entrepreneurs to avail their working capital and term loan requirements through a Single Window, what is the maximum limit of a composite loan that can be sanctioned?
(A) ₹1 crore
(B) ₹25 lakh
(C) ₹50 lakh
(D) ₹2 crore

Ans :

(A) ₹1 crore
To simplify the credit delivery process for MSE entrepreneurs, banks can sanction a composite loan. This type of loan combines both working capital and term loan requirements into a single credit facility. The guidelines specify that a composite loan with a limit of up to ₹1 crore can be sanctioned through a single window to meet these dual needs.

May/June 2009

59. A small enterprise takes a loan of ₹70 lakh to purchase new machinery worth ₹90 lakh. Under the Credit Linked Capital Subsidy Scheme (CLSS), what would be the subsidy amount it is eligible for?
(A) ₹10.50 lakh (15% of ₹70 lakh)
(B) ₹15.00 lakh (15% of ₹1 crore)
(C) The full loan amount of ₹70 lakh.
(D) ₹13.50 lakh (15% of ₹90 lakh)

Ans :

(D) ₹13.50 lakh (15% of ₹90 lakh)
The Credit Linked Capital Subsidy Scheme (CLSS) offers a subsidy of 15% for technology upgradation. The basis for calculating the subsidy is explicitly stated as the purchase price of the plant and machinery, not the loan amount. In this case, the purchase price is ₹90 lakh. Therefore, the eligible subsidy is 15% of ₹90 lakh, which equals ₹13.50 lakh.

Oct/Nov 2007

60. Under the 'Framework for Revival and Rehabilitation of MSME' notified by the Ministry of MSME and the subsequent RBI guidelines, what is the maximum loan limit of MSME units that would be covered for revival and rehabilitation?
(A) ₹10 crore
(B) ₹25 crore
(C) ₹50 crore
(D) ₹100 crore

Ans :

(B) ₹25 crore
To address stress in MSME accounts, a specific framework was established. The 'Framework for Revival and Rehabilitation of MSME' provides a structured mechanism for this process. As per the guidelines issued by the RBI based on this framework, the revival and rehabilitation of MSME units with loan limits up to ₹25 crore would be undertaken.

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Oct/Nov 2016

18. What are the collateral and margin requirements for an SHG loan limit up to ₹10.00 lakh under DAY-NRLM?
(A) No collateral and no margin.
(B) 10% margin and mortgage of property.
(C) 5% margin and a third-party guarantee.
(D) Lien on savings account and 15% margin.

Ans :

(A) No collateral and no margin.
To facilitate hassle-free credit access for SHGs, DAY-NRLM has simplified security norms. For all loan limits up to ₹10.00 lakh, banks are instructed not to obtain any collateral security or ask for any margin money. Furthermore, banks should not mark a lien on the SHG's savings bank account or insist on any deposits.

May/June 2005

19. For SHG loans above ₹10 lakh and up to ₹20 lakh under DAY-NRLM, which fund provides guarantee coverage for the entire loan amount?
(A) Pradhan Mantri MUDRA Yojana (PMMY) Fund
(B) National Credit Guarantee Trustee Company (NCGTC)
(C) Credit Guarantee Fund for Micro Units (CGFMU)
(D) Deposit Insurance and Credit Guarantee Corporation (DICGC)

Ans :

(C) Credit Guarantee Fund for Micro Units (CGFMU)
For larger SHG loans, specifically those above ₹10 lakh and up to ₹20 lakh, while no collateral is taken, the loan is secured through a credit guarantee mechanism. The entire loan amount in this bracket is eligible for coverage under the Credit Guarantee Fund for Micro Units (CGFMU), which mitigates the credit risk for the lending institution.

Oct/Nov 2010

20. If an individual member of an SHG is a defaulter to the bank in their personal capacity, how should the bank treat a new loan application from the SHG?
(A) Reject the SHG's loan application immediately.
(B) Sanction the loan but exclude the defaulting member from the group.
(C) Sanction the loan only if the defaulting member's spouse provides a guarantee.
(D) Not deny the loan to the entire SHG on this pretext.

Ans :

(D) Not deny the loan to the entire SHG on this pretext.
The DAY-NRLM guidelines promote the principle of group responsibility over individual credit history. Banks are explicitly instructed not to deny a loan to an entire SHG solely on the grounds that one or more of its members, or their family members, have a pre-existing default with the bank. The lending decision should be based on the SHG's group dynamics and discipline.

May/June 2021

21. For select 250 districts under the Interest Subvention Scheme for Women SHGs, what is the effective lending rate for loans up to ₹3 lakh?
(A) 9% per annum
(B) 5.5% per annum
(C) 7% per annum
(D) 4% per annum

Ans :

(C) 7% per annum
In select 250 districts identified for intensive implementation of the scheme, women SHGs receive enhanced interest subvention benefits. Commercial banks (PSBs, Private Sector Banks, and SFBs) are required to lend to these SHGs at a rate of 7% per annum for aggregate credit up to ₹3,00,000, making credit significantly more affordable for them.

Oct/Nov 2006

22. In the select 250 districts, what additional interest subvention is provided to women SHGs on prompt repayment of loans?
(A) 1%
(B) 3%
(C) 2%
(D) 5%

Ans :

(B) 3%
To incentivize timely repayment and foster a strong credit culture, the Interest Subvention Scheme under DAY-NRLM includes a provision for an additional benefit. In the select 250 districts, women SHGs that exhibit prompt repayment of

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validated by the local revenue officer.

(D) Identification using data from the Socio-Economic and Caste Census (SECC) with at least one deprivation criteria.

Ans :

(D) Identification using data from the Socio-Economic and Caste Census (SECC) with at least one deprivation criteria.

The DAY-NRLM adopts a 'Participatory Identification of Poor' (PIP) process to accurately identify its target group. This involves identifying households that have at least one deprivation criteria as per the Socio-Economic and Caste Census (SECC) data. The process also includes the participation of the poor themselves in the identification, making it a comprehensive and targeted approach.

May/June 2021

5. What is the main purpose of providing a Revolving Fund and Community Investment Support Fund (C.I.F) under DAY-NRLM?

(A) To provide grants for building community infrastructure like local roads and primary schools.

(B) To directly pay off the outstanding high-interest debts of all SHG members from informal sources.

(C) To act as an incentive for SHGs to accumulate their own funds for credit and consumption needs.

(D) To fund the administrative and operational expenses of the State Rural Livelihoods Missions (SRLMs).

Ans :

(C) To act as an incentive for SHGs to accumulate their own funds for credit and consumption needs.

The Revolving Fund (RF) and Community Investment Support Fund (C.I.F) are key financial support mechanisms in DAY-NRLM. The Revolving Fund is provided as an incentive to SHGs to encourage them to accumulate their own funds, which can then be used for internal lending to meet immediate credit needs, including consumption, thereby building financial discipline.

Oct/Nov 2005

6. Under DAY-NRLM, what is the primary role of 'Intensive blocks'?

(A) To limit all program activities to a few selected, high-performing villages within the block.

(B) To receive a full complement of trained staff and cover a wide range of social and financial inclusion activities.

(C) To serve as pilot areas for testing new government livelihood schemes before a national rollout.

(D) To focus exclusively on agricultural lending and crop insurance, ignoring other non-farm livelihood activities.

Ans :

(B) To receive a full complement of trained staff and cover a wide range of social and financial inclusion activities.

DAY-NRLM designates certain areas as 'Intensive blocks' to ensure a concentrated and comprehensive implementation of the mission's objectives. These blocks are provided with a full complement of trained professional staff and are expected to cover a whole range of activities, including universal social and financial inclusion, livelihoods, and partnerships, ensuring a deeper impact in these areas.

May/June 2017

7. According to DAY-NRLM guidelines, what is the specified duration of continuous hand-holding support provided to the institutions of the poor?

(A) 1 – 2 years

(B) 2 – 3 years

(C) 3 – 5 years

(D) 5 – 7 years

Ans :

(D) 5 – 7 years

A core principle of DAY-NRLM is providing long-term, continuous support to ensure the sustainability of the institutions of the poor, particularly women's Self-Help Groups (SHGs). The mission provides hand-holding support for a period of 5 to 7 years, guiding these institutions until they achieve self-sufficiency and are able to overcome abject poverty through their collective efforts.

Oct/Nov 2020

8. What is the specified range for Revolving Fund (RF) support provided as corpus to a Self-Help Group (SHG) under DAY-NRLM?

(A) Minimum ₹10,000 and maximum ₹15,000

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(B) Minimum ₹5,000 and maximum ₹10,000
(C) Minimum ₹10,000 and maximum ₹20,000
(D) Minimum ₹15,000 and maximum ₹25,000

Ans :

(A) Minimum ₹10,000 and maximum ₹15,000
Under DAY-NRLM, financial assistance is provided to SHGs to strengthen their institutional capacity and build a credit history. The Revolving Fund (RF) support, which acts as a corpus for the group, is provided within a specific range. The amount per SHG is a minimum of ₹10,000 and can go up to a maximum of ₹15,000.

May/June 2006

9. In which type of blocks is the Community Investment Support Fund (CIF) primarily provided under the DAY-NRLM scheme?
(A) In all blocks across the country.
(B) Only in non-intensive blocks.
(C) In the intensive blocks.
(D) Only in blocks with a high concentration of minority populations.

Ans :

(C) In the intensive blocks.
The Community Investment Support Fund (CIF) is a critical financial resource provided to the federations of SHGs under DAY-NRLM. This fund is specifically provided in the 'intensive blocks' where the mission's activities are implemented with greater depth. The CIF is maintained in perpetuity by the federations to provide loans to SHGs for various socio-economic activities.

Oct/Nov 2013

10. What is the maximum loan amount per SHG for which the interest subvention scheme under DAY-NRLM is applicable, reducing the effective interest rate to 7% p.a.?
(A) ₹3,00,000
(B) ₹1,00,000
(C) ₹2,00,000
(D) ₹5,00,000

Ans :

(A) ₹3,00,000
The interest subvention scheme under DAY-NRLM aims to make credit more affordable for women SHGs. The scheme covers the difference between the bank's lending rate and 7% per annum on all credit availed by women SHGs from financial institutions. This benefit is applicable for a maximum loan amount of ₹3,00,000 per Self-Help Group.

May/June 2022

11. How should banks classify the savings accounts opened for Federations of SHGs at the village, Gram Panchayat, or Cluster level under DAY-NRLM?
(A) As Individual Savings Accounts.
(B) As Corporate Body Accounts.
(C) As Government Agency Accounts.
(D) As 'Association of Persons' accounts.

Ans :

(D) As 'Association of Persons' accounts.
The guidelines for opening bank accounts under DAY-NRLM specify the nature of accounts for different entities. While SHGs have their own savings accounts, the federations of SHGs at various levels (village, Gram Panchayat, Cluster, etc.) are distinct legal entities. Banks are required to open savings accounts for these federations under the 'Association of Persons' category.

Oct/Nov 2008

12. Which of the following is NOT one of the 'Panchasutras' that an SHG must practice to be eligible for loans under DAY-NRLM?
(A) Regular meetings
(B) Mandatory health check-ups for all members
(C) Regular savings
(D) Timely repayment

Ans :

(B) Mandatory health check-ups for all members
The 'Panchasutras' are five key principles of financial discipline that an SHG must adhere to for loan eligibility under DAY-NRLM. These are: regular meetings, regular savings, regular inter-loaning, timely repayment, and maintaining up-to-date books of accounts. Mandatory health check-ups are not part of this financial discipline framework, although they may be a desirable social outcome.

May/June 2011

13. For a revived defunct SHG to be eligible for a loan under DAY-NRLM, what is the minimum period it must be active?
(A) 1 month
(B) 6 months
(C) 3 months
(D) 12 months

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Ans :

(C) 3 months
The DAY-NRLM guidelines provide an opportunity for defunct SHGs to be revived and re-integrated into the financial system. While a new SHG needs to be active for at least 6 months, a revived defunct SHG can become eligible for a bank loan if it has been active for a shorter minimum period of at least 3 months.

Oct/Nov 2019

14. What is the drawing power for an SHG in its second year for a Cash Credit Limit (CCL) under DAY-NRLM?
(A) 6 times the existing corpus or a minimum of ₹1 lakh, whichever is higher.
(B) A minimum of ₹6 lakh based on the Micro Credit Plan (MCP).
(C) 4 times the existing corpus or a minimum of ₹1.5 lakh, whichever is higher.
(D) 8 times the existing corpus or a minimum of ₹2 lakh, whichever is higher.

Ans :

(D) 8 times the existing corpus or a minimum of ₹2 lakh, whichever is higher.
The DAY-NRLM framework for Cash Credit Limits (CCL) follows a progressive enhancement of credit access. For the second year of financing, the drawing power for an SHG is calculated as 8 times its existing corpus or a minimum of ₹2 lakh, whichever amount is higher, reflecting the group's growing credit absorption capacity and performance.

May/June 2025

15. For an SHG availing a term loan under DAY-NRLM, what is the drawing power for the third dose of the loan?
(A) A minimum of ₹6 lakh based on the Micro Credit Plan (MCP).
(B) 6 times the existing corpus or minimum of ₹1 lakh, whichever is higher.
(C) 8 times the existing corpus or minimum of ₹2 lakh, whichever is higher.
(D) Above ₹6 lakh based on the Micro Credit Plan (MCP).

Ans :

(A) A minimum of ₹6 lakh based on the Micro Credit Plan (MCP).
For term loans under DAY-NRLM, the credit limit increases with each dose. The first two doses are linked to the SHG's corpus. For the third dose, the loan amount is delinked from the corpus and is determined based on the group's needs and capacity, with a minimum loan of ₹6 lakh based on the Micro Credit Plan (MCP).

Oct/Nov 2007

16. What is the prescribed minimum portion of a loan above ₹4 lakh that must be used for income-generating productive purposes by SHGs under DAY-NRLM?
(A) At least 50%
(B) At least 75%
(C) At least 60%
(D) At least 85%

Ans :

(B) At least 75%
While DAY-NRLM loans can be used for various needs like social purposes and debt swapping, a significant portion must be directed towards productive activities to ensure sustainable livelihoods. For loans exceeding ₹4 lakh but up to ₹6 lakh, the guidelines mandate that at least 75% of the loan amount must be utilized for income-generating purposes.

May/June 2018

17. What is the specified repayment period for the first dose of a term loan sanctioned to an SHG under DAY-NRLM?
(A) 12-24 months in monthly/quarterly instalments.
(B) 24-36 months in monthly/quarterly instalments.
(C) 36-48 months in monthly/quarterly instalments.
(D) 48-60 months based on the cash flow.

Ans :

(B) 24-36 months in monthly/quarterly instalments.
The repayment schedule for term loans under DAY-NRLM is structured to match the cash flow generation from the activities financed. For the first year/dose of the loan, the repayment period is set between 24 and 36 months, with the flexibility of either monthly or quarterly instalments, allowing the SHG sufficient time to stabilize its venture.

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Ans :

(D) 30%
DAY-NULM emphasizes women's empowerment as a key objective. To ensure their significant participation in the self-employment ventures promoted under the scheme, the guidelines mandate that the proportion of women beneficiaries must not be less than 30%. This helps in fostering economic independence among urban poor women and promoting gender equality in livelihood opportunities.

Oct/Nov 2018

28. What is the reservation for differently-abled beneficiaries under the DAY-NULM scheme?
(A) 1%
(B) 5%
(C) 3%
(D) 7%

Ans :

(B) 5%
To ensure the inclusion of persons with disabilities, DAY-NULM has a specific reservation for this sub-group. The guidelines stipulate that 5% of the physical and financial targets are earmarked for differently-abled beneficiaries. Within this 5% quota, priority is to be given to women, further emphasizing the mission's focus on supporting the most vulnerable sections.

May/June 2023

29. What is the time limit for a bank to process a loan application forwarded by the Urban Local Body (ULB) Task Force under DAY-NULM?
(A) 7 days
(B) 30 days
(C) 15 days
(D) 45 days

Ans :

(C) 15 days
To ensure speedy disposal of loan applications and timely access to credit for the urban poor, the DAY-NULM framework sets a clear timeline for banks. Once an application is scrutinized and recommended by the ULB's Task Force, the concerned bank is required to process it and communicate its decision within 15 days of receipt.

Oct/Nov 2009

30. What additional interest subvention is provided to all Women Self Help Groups (WSHGs) under DAY-NULM who repay their loan in time?
(A) 1%
(B) 2%
(C) 5%
(D) 3%

Ans :

(D) 3%
Similar to the rural scheme, DAY-NULM also incentivizes prompt repayment. An additional interest subvention of 3% is provided to all Women Self Help Groups (WSHGs) that repay their loans on time. Banks are required to credit this amount to the eligible WSHG accounts and subsequently seek reimbursement, effectively lowering the cost of credit.

May/June 2016

31. Under the Self-Employment Programme for Individual Enterprises (SEP-I) of DAY-NULM, what is the maximum project cost?
(A) ₹2,00,000
(B) ₹1,00,000
(C) ₹5,00,000
(D) ₹10,00,000

Ans :

(A) ₹2,00,000
The Self-Employment Programme for Individual Enterprises (SEP-I) under DAY-NULM is designed to support urban poor individuals in setting up their own micro-enterprises. The scheme specifies a ceiling on the project size to focus on small-scale ventures. The maximum unit project cost (PC) allowed under SEP-I is ₹2,00,000 per individual beneficiary.

Oct/Nov 2023

32. What is the margin money requirement for a loan of ₹75,000 under the Individual Enterprises (SEP-I) component of DAY-NULM?
(A) A fixed 10% margin is required for all loan amounts, regardless of size.
(B) No margin for loans up to ₹50,000; preferably 5% for higher amounts.
(C) A fixed 5% margin is applicable for all loan amounts above ₹25,000.
(D) No margin is required for any loan amount under SEP-I as it is fully subsidized.

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their loans are provided an additional interest subvention of 3%, further reducing their effective cost of borrowing.

May/June 2019

23. For Category II districts (other than the select 250), how is the interest subvention amount managed?

(A) It is paid directly to the bank by the central government via the nodal agency.
(B) The bank first waives the interest for the SHG and then claims reimbursement from the RBI.
(C) The SHG pays the full interest amount and then claims a refund annually from the ULB.
(D) It is subvented directly into the loan accounts of the SHGs by the SRLMs.

Ans :

(D) It is subvented directly into the loan accounts of the SHGs by the SRLMs.
In Category II districts, the mechanism for interest subvention differs from the select 250 districts. Here, banks charge their respective lending norms. The difference between the bank's lending rate and 7% (subject to a maximum of 5.5%) is credited directly into the loan accounts of the promptly paying SHGs by the State Rural Livelihood Missions (SRLMs).

Oct/Nov 2014

24. What is the criterion for 'prompt repayment' for a term loan under the DAY-NRLM interest subvention scheme?

(A) All instalments are paid within 30 days of the due dates.
(B) All instalments must be paid on or before the exact due date without any grace period.
(C) At least 90% of the total yearly instalments are paid within the same financial year.
(D) The entire loan principal and interest is closed before the end of the official tenure.

Ans :

(A) All instalments are paid within 30 days of the due dates.
The definition of 'prompt repayment' is crucial for eligibility for additional interest subvention. For term loans under DAY-NRLM, an account is considered promptly paid if all of the interest payments and/or principal instalments are paid within 30 days of their respective due dates during the loan's tenure, providing a reasonable grace period.

May/June 2012

25. Which state government adopted the 'Mission Shakti' programme in 2001 as a key strategy for women's empowerment through the promotion of Women's Self-Help Groups (WSHGs)?

(A) Gujarat
(B) Kerala
(C) Odisha
(D) West Bengal

Ans :

(C) Odisha
The 'Mission Shakti' programme is a notable state-level initiative focused on the economic and social empowerment of women. It was adopted by the Government of Odisha in 2001 as a primary strategy to achieve this goal by promoting and strengthening Women's Self-Help Groups (WSHGs), providing them with credit and market linkages for gainful activities.

Oct/Nov 2025

26. Which scheme was replaced by the National Urban Livelihoods Mission (NULM), which was later renamed DAY-NULM in February 2016?

(A) Swarna Jayanti Shahari Rozgar Yojana (SJSRY)
(B) Swarnjayanti Gram Swarozgar Yojana (SGSY)
(C) Nehru Rozgar Yojana (NRY)
(D) Urban Basic Services for the Poor (UBSP)

Ans :

(A) Swarna Jayanti Shahari Rozgar Yojana (SJSRY)
The Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAY-NULM) is the successor scheme for promoting livelihoods in urban areas. It was established by replacing the earlier Swarna Jayanti Shahari Rozgar Yojana (SJSRY). The mission was formally renamed to DAY-NULM in February 2016 to align with the government's broader Antyodaya objectives.

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May/June 2007

27. Under DAY-NULM, what is the minimum percentage of beneficiaries that must be women?

(A) 15%
(B) 25%
(C) 50%
(D) 30%

CHAPTER 40
Government Sponsored Schemes

May/June 2014

1. The Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM) was launched after renaming the National Rural Livelihoods Mission (NRLM) with effect from which date?
(A) April 1, 2015
(B) March 29, 2016
(C) February 1, 2016
(D) October 2, 2014

Ans :

(B) March 29, 2016
The National Rural Livelihoods Mission (NRLM) replaced the Swarnjayanti Gram Swarozgar Yojana (SGSY). This mission was subsequently renamed as Deendayal Antyodaya Yojana – National Livelihoods Mission (DAY-NRLM) to enhance its focus and scope. The renaming and implementation of DAY-NRLM became effective from March 29, 2016, continuing the government's efforts towards rural poverty alleviation.

Oct/Nov 2023

2. Which of the following is NOT listed as a primary objective of the Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM)?
(A) Providing direct cash transfers to all rural households below the poverty line.
(B) Promoting poverty reduction through building strong institutions of the poor.
(C) Enabling institutions to access a range of financial services and livelihood services.
(D) Promoting financial inclusion and strengthening livelihoods of the poor.

Ans :

(A) Providing direct cash transfers to all rural households below the poverty line.
The objectives of DAY-NRLM focus on building institutional capacity and creating sustainable livelihoods. The mission aims to build strong institutions for the poor, enable their access to financial and livelihood services, and promote financial inclusion. It does not involve providing direct, unconditional cash transfers; instead, it empowers the poor through institutional platforms and financial support mechanisms.

May/June 2008

3. Under the 'Universal Social Mobilization' feature of DAY-NRLM, what is the mandated composition of beneficiaries from SC/STs, minorities, and persons with disability?
(A) 40% SC/STs, 10% minorities, 5% persons with disability
(B) 25% SC/STs, 20% minorities, 2% persons with disability
(C) 50% SC/STs, 15% minorities, 3% persons with disability
(D) 60% SC/STs, 5% minorities, 5% persons with disability

Ans :

(C) 50% SC/STs, 15% minorities, 3% persons with disability
To ensure inclusivity, the Universal Social Mobilization component of DAY-NRLM specifies a clear composition for its beneficiaries. The framework requires that at least 50% of beneficiaries must be from Scheduled Castes/ Scheduled Tribes, 15% must belong to minority communities, and 3% must be persons with disability, ensuring that the program reaches the most vulnerable sections of society.

Oct/Nov 2011

4. What is the primary mechanism used for 'Participatory Identification of Poor (PIP)' under the DAY-NRLM scheme?
(A) Identification based solely on the Below Poverty Line (BPL) list generated by state governments.
(B) Identification by Village Panchayats based on community voting and verification by the Block Development Officer.
(C) Identification based on annual income certificates provided by households and

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Ans :

(B) No margin for loans up to ₹50,000; preferably 5% for higher amounts.
The margin money norms under SEP-I are designed to be lenient for smaller loans. For loans up to ₹50,000, no margin money is required from the beneficiary. For higher amounts, like a ₹75,000 loan, a margin is applicable, which should preferably be 5% but must not exceed 10% of the total project cost.

May/June 2022

33. For a Group Enterprise (SEP-G) under DAY-NULM, what is the minimum number of members required in the group?
(A) 2 members
(B) 3 members
(C) 5 members
(D) 10 members

Ans :

(B) 3 members
The Group Enterprises (SEP-G) component of DAY-NULM promotes collective action among the urban poor. To form a group enterprise eligible for assistance, the guidelines specify that the group must have a minimum of 3 members. This ensures that the venture is a collaborative effort, pooling skills and resources for a common business objective.

Oct/Nov 2020

34. What is the maximum loan amount for a Group Enterprise (SEP-G) under DAY-NULM?
(A) ₹2 Lakh per member or an aggregate of ₹10 Lakh, whichever is lower.
(B) ₹2 Lakh per member or an aggregate of ₹5 Lakh, whichever is lower.
(C) ₹1 Lakh per member or an aggregate of ₹10 Lakh, whichever is lower.
(D) ₹5 Lakh per member or an aggregate of ₹20 Lakh, whichever is lower.

Ans :

(A) ₹2 Lakh per member or an aggregate of ₹10 Lakh, whichever is lower.
The loan limit for a Group Enterprise (SEP-G) under DAY-NULM is determined by both the number of members and an overall ceiling. The maximum loan is calculated as ₹2 lakh per member or an aggregate total of ₹10 lakh for the entire group, whichever of the two calculated amounts is lower.

May/June 2011

35. What is the function of City Livelihoods Centers (CLCs) established under DAY-NULM?
(A) To provide free temporary housing and shelter to the homeless urban poor.
(B) To act as nodal agencies for disbursing direct cash benefits and subsidies to beneficiaries.
(C) To offer support services like licensing, marketing, and technology for enterprises.
(D) To conduct exclusive skill training programs for government and public sector jobs.

Ans :

(C) To offer support services like licensing, marketing, and technology for enterprises.
City Livelihoods Centers (CLCs) are established under DAY-NULM to provide a range of crucial support services to urban poor entrepreneurs. These centers act as a one-stop-shop, offering assistance with establishment formalities like licenses and registration, as well as support for production, procurement, technology, marketing, and other services essential for long-term business sustainability.

Oct/Nov 2012

36. What is the accident insurance cover for Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts opened after August 28, 2018?
(A) ₹30,000
(B) ₹1,00,000
(C) ₹5,00,000
(D) ₹2,00,000

Ans :

(D) ₹2,00,000
The Pradhan Mantri Jan Dhan Yojana (PMJDY) was enhanced to provide greater benefits to new account holders. For accounts opened after August 28, 2018, the inbuilt accident insurance cover available with the RuPay debit card was increased from ₹1,00,000 to ₹2,00,000, offering a higher level of financial security against accidents.

May/June 2015

37. To be eligible for the overdraft facility in a PMJDY account, for how long must the account have been operated satisfactorily?
(A) At least 3 months

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(B) At least 9 months
(C) At least 6 months
(D) At least 12 months

Ans :

(C) At least 6 months
The overdraft facility is a key feature of PMJDY, providing access to small amounts of credit. However, to become eligible for this facility, the account holder must demonstrate a record of responsible account management. The eligibility criterion specifies that the Basic Savings Bank Deposit (BSBD) account must have been operated satisfactorily for at least six months.

Oct/Nov 2013

38. What is the maximum overdraft amount that can be sanctioned in a PMJDY account?
(A) ₹5,000
(B) ₹10,000
(C) ₹15,000
(D) ₹20,000

Ans :

(B) ₹10,000
The overdraft facility in PMJDY provides a small, hassle-free loan to meet exigencies. The loan amount is calculated as the lower of four times the average monthly balance or 50% of credit summations in the preceding six months. However, this calculated amount is subject to an overall maximum cap of ₹10,000 per eligible account holder.

May/June 2008

39. What is the age group of people eligible to enroll in the Pradhan Mantri Suraksha Bima Yojana (PMSBY)?
(A) 18 to 40 years
(B) 18 to 50 years
(C) 18 to 60 years
(D) 18 to 70 years

Ans :

(D) 18 to 70 years
The Pradhan Mantri Suraksha Bima Yojana (PMSBY) is a government-backed accident insurance scheme with wide eligibility. The scheme is available to all individuals who have a bank account and are in the age group of 18 to 70 years. They must provide their consent to join and enable the auto-debit facility for premium payment.

Oct/Nov 2017

40. What is the annual premium for the Pradhan Mantri Suraksha Bima Yojana (PMSBY) and what is the coverage for partial disability?
(A) Premium ₹20; Coverage ₹1 lakh
(B) Premium ₹12; Coverage ₹1 lakh
(C) Premium ₹12; Coverage ₹2 lakh
(D) Premium ₹20; Coverage ₹2 lakh

Ans :

(A) Premium ₹20; Coverage ₹1 lakh
PMSBY offers accident insurance at a very nominal cost. The annual premium for the scheme is ₹20, which is auto-debited from the subscriber's bank account. The risk coverage under the scheme is ₹2 lakh for accidental death and full disability, and a sum of ₹1 lakh is provided in the case of partial disability.

May/June 2006

41. Who is the administrative authority for the Atal Pension Yojana (APY)?
(A) Reserve Bank of India (RBI)
(B) Insurance Regulatory and Development Authority of India (IRDAI)
(C) Pension Fund Regulatory and Development Authority (PFRDA)
(D) Securities and Exchange Board of India (SEBI)

Ans :

(C) Pension Fund Regulatory and Development Authority (PFRDA)
The Atal Pension Yojana (APY) is a government-run pension scheme aimed at the unorganized sector, administered by a specialized regulatory body. The scheme's implementation, regulation, and overall administration are managed by the Pension Fund Regulatory and Development Authority (PFRDA), which is the principal regulator for the pension sector in India.

Oct/Nov 2008

42. As of October 1, 2022, which category of citizens is not eligible to join the Atal Pension Yojana (APY)?
(A) Any citizen who is or has been an income-tax payer under the Income Tax Act.
(B) Any citizen who is a salaried employee in the organized private sector.
(C) Any citizen who is already a member of a registered Self-Help Group (SHG).

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(D) Any citizen who has an existing housing loan from a commercial bank.

Ans :

(A) Any citizen who is or has been an income-tax payer under the Income Tax Act.
To ensure that the benefits of the Atal Pension Yojana (APY) are targeted towards citizens with lower incomes, the eligibility criteria were revised. Effective from October 1, 2022, any citizen who is or has been an income-tax payer is no longer eligible to join the APY scheme, focusing its reach on the unorganized and non-tax-paying population.

May/June 2024

43. In case of the premature death of an APY subscriber before the age of 60, what option is available to the spouse?
(A) The account is mandatorily closed, and the accumulated corpus is returned to the legal nominee.
(B) The spouse immediately receives a reduced monthly pension for life, calculated on a pro-rata basis.
(C) The government's co-contribution is forfeited, and only the subscriber's contribution is returned with interest.
(D) The spouse can continue contributing to the APY account for the remaining vesting period.

Ans :

(D) The spouse can continue contributing to the APY account for the remaining vesting period.
The Atal Pension Yojana (APY) provides a continuity option for the spouse in the event of the subscriber's premature death (before age 60). The spouse has the option to continue making contributions to the subscriber's APY account for the remaining vesting period, until the original subscriber would have reached 60, thereby ensuring the pension benefits remain intact.

Oct/Nov 2021

44. MUDRA loans are categorized into 'Shishu', 'Kishor', and 'Tarun'. What is the loan amount covered under the 'Kishor' category?
(A) Loans up to ₹50,000.
(B) Loans above ₹50,000 and up to ₹5 lakh.
(C) Loans above ₹5 lakh and up to ₹10 lakh.
(D) Loans above ₹10 lakh and up to ₹25 lakh.

Ans :

(B) Loans above ₹50,000 and up to ₹5 lakh.
The Pradhan Mantri MUDRA Yojana (PMMY) provides loans through three distinct categories based on the stage of business development and funding needs. The 'Kishor' category is designed for entrepreneurs who have started their business and require additional funds for expansion. It covers loans with an amount above ₹50,000 and up to ₹5 lakh.

May/June 2013

45. Which of the following is NOT a primary function of the Micro Units Development & Refinance Agency Ltd (MUDRA)?
(A) Extending financial support to lending institutions in the form of refinance for micro-enterprises.
(B) Monitoring PMMY scheme data by managing the national-level web portal for all lenders.
(C) Directly sanctioning and lending funds to individual borrowers and micro-enterprise owners.
(D) Facilitating credit enhancement through guarantees for loans granted to micro-units under PMMY.

NODIA

Ans :

(C) Directly sanctioning and lending funds to individual borrowers and micro-enterprise owners.
MUDRA operates as a refinancing agency and not a direct lender. Its primary functions include refinancing loans extended by banks and other financial institutions to micro-enterprises, monitoring the implementation of the PMMY scheme, and facilitating credit guarantees. It supports the lending ecosystem rather than engaging in direct retail lending to the end borrowers.

Oct/Nov 2015

46. Under MUDRA loan guidelines, for which category of loan is the margin/promoter's contribution generally waived by banks?
(A) Kishor loans
(B) Tarun loans
(C) All MUDRA loans
(D) Shishu loans

Ans :

(D) Shishu loans

While banks may ask for a promoter's contribution as per RBI guidelines for MUDRA loans, there is a specific relaxation for the smallest loan category. For 'Shishu' loans, which cover amounts up to ₹50,000, most banks have waived the requirement for margin money or promoter's contribution to encourage nascent entrepreneurs and startups.

May/June 2020

47. What type of security is typically obtained for a MUDRA loan?
(A) First charge on all assets financed by the loan and other associated business assets.
(B) Mortgage of immovable property owned by the promoter or a family member.
(C) A personal guarantee from a third-party with a high credit score.
(D) Pledge of government-issued securities like National Savings Certificates (NSCs).

Ans :

(A) First charge on all assets financed by the loan and other associated business assets.
MUDRA loans are secured primarily by the assets created using the loan funds. As per RBI guidelines, no collateral security should be obtained. Instead, the security is a first charge on all assets financed through the loan and other assets directly associated with the business. The loans are also covered under CGFMU or CGTMSE.

Oct/Nov 2005

48. The Prime Minister's Employment Generation Programme (PMEGP) was introduced in 2008 by merging which two earlier schemes?
(A) SGSY and SJSRY
(B) PMRY and REGP
(C) TRYSEM and DWCRA
(D) JRY and EAS

Ans :

(B) PMRY and REGP
The Prime Minister's Employment Generation Programme (PMEGP) was created to streamline employment generation efforts into a single, cohesive credit-linked subsidy program. It was launched in 2008 by merging two pre-existing schemes: the Prime Minister's Rojgar Yojana (PMRY) and the Rural Employment Generation Programme (REGP), combining their objectives and operational frameworks.

May/June 2017

49. Who is the nodal agency at the national level for implementing the Prime Minister's Employment Generation Programme (PMEGP)?
(A) Small Industries Development Bank of India (SIDBI)
(B) Khadi and Village Industries Commission (KVIC)
(C) National Bank for Agriculture and Rural Development (NABARD)
(D) Ministry of Micro, Small & Medium Enterprises (MSME)

Ans :

(B) Khadi and Village Industries Commission (KVIC)
The implementation of PMEGP involves multiple agencies at different levels. At the national level, the Khadi and Village Industries Commission (KVIC) functions as the single nodal agency responsible for coordinating the program, routing government subsidies, and overseeing the implementation through various state-level agencies like KVIBs, DICs, and banks.

Oct/Nov 2024

50. What is the beneficiary's contribution for a project under PMEGP for a person belonging to the special category (SC/ST/OBC, etc.)?
(A) 5% of the project cost
(B) 15% of the project cost
(C) 10% of the project cost
(D) No contribution is required

Ans :

(A) 5% of the project cost
Under PMEGP, the beneficiary's contribution varies based on their category. For applicants belonging to the general category, the contribution is 10% of the project cost. However, for those in the special categories, which include SC, ST, OBC, minorities, women, and others, the required contribution is reduced to 5% of the project cost.

May/June 2010

51. For setting up a new micro-enterprise unit in a rural area, what is the margin money subsidy component for a beneficiary from the general category under PMEGP?
(A) 15% of Project Cost
(B) 35% of Project Cost
(C) 25% of Project Cost

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(D) 10% of Project Cost

Ans :

(C) 25% of Project Cost
The PMEGP provides a capital subsidy in the form of margin money, with rates varying by beneficiary category and location. For a beneficiary from the general category setting up a new unit in a designated rural area, the applicable margin money subsidy is 25% of the total project cost, which is higher than the urban rate.

Oct/Nov 2011

52. What is the capital subsidy support for the upgradation of an existing PMEGP unit located in the North East region?
(A) 10% of the project cost
(B) 15% of the project cost
(C) 25% of the project cost
(D) 20% of the project cost

Ans :

(D) 20% of the project cost
PMEGP also supports the expansion and modernization of existing units. For the upgradation of units in the North East region and Hill States, a higher rate of capital subsidy is provided. This is set at 20% of the project cost, compared to the 15% subsidy available for units in other regions of the country.

May/June 2009

53. What is the maximum project cost eligible for subsidy for setting up a new unit in the manufacturing sector under PMEGP?
(A) ₹20 lakh
(B) ₹25 lakh
(C) ₹50 lakh
(D) ₹100 lakh

Ans :

(C) ₹50 lakh
The PMEGP scheme defines the maximum project cost for which government subsidy can be availed. For new projects in the manufacturing sector, the ceiling for the project cost eligible for subsidy has been set at ₹50 lakh. Any project cost exceeding this amount must be financed by the bank without any government subsidy component.

Oct/Nov 2019

54. Under PMEGP, what is the minimum educational qualification required for a beneficiary proposing a project costing above ₹10 lakh in the manufacturing sector?
(A) No minimum qualification
(B) 8th Standard pass
(C) 5th Standard pass
(D) 10th Standard pass

Ans :

(B) 8th Standard pass
While PMEGP is broadly accessible, a minimum educational qualification is stipulated for larger projects to ensure the beneficiary has the basic acumen to manage the venture. For projects costing above ₹10 lakh in the manufacturing sector, or above ₹5 lakh in the business/service sector, the beneficiary must have passed at least the 8th Standard.

May/June 2025

55. For bank finance under PMEGP, what is the extent of the loan (including subsidy) for a beneficiary in a special category?
(A) 85% of the project cost
(B) 90% of the project cost
(C) 100% of the project cost
(D) 95% of the project cost

Ans :

(D) 95% of the project cost
The bank loan component under PMEGP is calculated after deducting the beneficiary's own contribution. For a general category beneficiary contributing 10%, the loan is 90%. For a special category beneficiary, whose contribution is only 5% of the project cost, the bank finances the remaining 95% of the project cost, which includes the margin money subsidy portion.

Oct/Nov 2007

56. "For Cash Credit Limit: Outstanding balance shall not have remained in excess of the limit/ drawing power continuously for more than 30 days. There should be regular credit and debits in the accounts (with at least one customer induced credit during a month). The customer induced credits should cover the interest debited during the month."
Based on the provided text, which condition would make an SHG ineligible for the 'prompt repayment' status on its Cash Credit account

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CHAPTER 41
Self-help Groups

May/June 2014

1. According to the stated objectives of the unit on Self-Help Groups, which of the following is a primary learning outcome for the reader?
(A) To learn the process of registering a non-governmental organization (NGO)
(B) To understand the concept of Self-Help Groups (SHGs)
(C) To analyze the macroeconomic impact of micro-finance institutions
(D) To master the legal framework for corporate lending

Ans :

(B) To understand the concept of Self-Help Groups (SHGs)
The objectives clearly state that after studying the unit, the reader will be able to understand the concept of Self-Help Groups (SHGs). The other options relate to broader topics like NGO registration, macroeconomic analysis, or corporate lending, which are not mentioned as specific learning goals for this particular unit on SHGs.

Oct/Nov 2022

2. What is the fundamental definition of a 'Self-Help Group' (SHG) as described in the text?
(A) A voluntary association of poor people formed for social and economic empowerment
(B) A government-mandated committee for rural development
(C) A for-profit micro-lending company targeting urban areas
(D) A formal cooperative society registered under the Companies Act

Ans :

(A) A voluntary association of poor people formed for social and economic empowerment
An SHG is defined as a voluntary association of the poor who come together with the shared objective of achieving social and economic empowerment. This distinguishes it from government committees, for-profit companies, or formal cooperative societies. The core principles are voluntarism, shared background, and the goal of self-empowerment through collective effort.

May/June 2005

3. How is micro-finance through SHGs characterized in the context of the credit delivery system?
(A) A supplementary credit system designed primarily for high-value corporate loans
(B) A temporary government scheme intended to be replaced by formal banking channels
(C) A silent revolutionary concept for extending financial services to the unreached
(D) An outdated credit model with limited applicability in the modern digital banking era

Ans :

(C) A silent revolutionary concept for extending financial services to the unreached
The text describes the SHG model as a silent revolutionary concept within the credit delivery system. It is highlighted as one of the best forms of credit for reaching segments of the population that are typically unreached or under-reached by the formal financial system. This emphasizes its innovative and impactful nature in financial inclusion.

Oct/Nov 2011

4. Which of the following is identified as a primary reason for the incapacitation of the rural poor?
(A) Over-reliance on technology and digital platforms
(B) High participation in organized labor unions
(C) Excessive savings and low consumption patterns
(D) Lack of access to knowledge and information

Ans :

(D) Lack of access to knowledge and information
The text states that the rural poor are incapacitated due to factors like being socially backward, illiterate, having low motivation, and

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(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(C) (A) is true but (R) is false.
The assertion is true; guidelines clearly state no collateral or margin for SHG loans up to ₹10 lakh. However, the reason is false in this context. The mandatory CGFMU coverage is applicable for loans above ₹10 lakh and up to ₹20 lakh. For loans up to ₹10 lakh, the absence of collateral is a policy directive itself, not dependent on CGFMU.

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under DAY-NRLM?
(A) The account had multiple credits and debits, but no customer-induced credit was made during the month.
(B) The outstanding balance exceeded the drawing power for a continuous period of 25 days.
(C) The interest debited for the month was ₹500, and a single customer-induced credit of ₹450 was received.
(D) The account was operated regularly with the balance consistently remaining within the drawing power.

Ans :

(A) The account had multiple credits and debits, but no customer-induced credit was made during the month.
For prompt repayment status, there must be "at least one customer induced credit during a month." Even if there are other transactions (like system-generated credits), the absence of a credit initiated by the customer themselves would violate this specific condition, thus making the account not qualify as 'promptly paid' for that month.

May/June 2014

57. An SHG, active for 8 months with a corpus of ₹40,000, applies for its first term loan under DAY-NRLM. The bank assesses their eligibility for the first dose. What is the maximum loan amount the bank can sanction?
(A) ₹1,00,000
(B) ₹3,20,000
(C) ₹2,40,000
(D) ₹6,00,000

Ans :

(C) ₹2,40,000
For the first dose of a term loan, the drawing power is 6 times the existing corpus or a minimum of ₹1,00,000, whichever is higher. In this case, 6 times the corpus is 6 × ₹40,000 = ₹2,40,000. Since ₹2,40,000 is higher than the minimum of ₹1,00,000, the bank can sanction a loan of ₹2,40,000.

Oct/Nov 2022

58. A group of 6 members from urban poor families wants to start a group enterprise (SEP-G) under DAY-NULM. At least 70% of members are from urban poor families. What is the maximum loan they can avail for their project?
(A) ₹10,00,000
(B) ₹2,00,000
(C) ₹12,00,000
(D) ₹5,00,000

Ans :

(A) ₹10,00,000
Under SEP-G, the maximum loan is the lower of two calculations: ₹2 lakh per member or an aggregate of ₹10 lakh. For 6 members, the first calculation is 6 × 2 lakh = ₹12 lakh. The second is the aggregate cap of ₹10 lakh. Since the rule is to choose the lower amount, the maximum loan the group can avail is ₹10 lakh.

May/June 2018

59. Match the loan category under the PMMY scheme in List-I with its corresponding loan amount in List-II.
List-I (Category)
P. Shishu
Q. Kishor
R. Tarun
List-II (Loan Amount)
1. Above ₹5 lakh and up to ₹10 lakh
2. Up to ₹50,000
3. Above ₹50,000 and up to ₹5 lakh
(A) P-2, Q-3, R-1
(B) P-1, Q-2, R-3
(C) P-3, Q-1, R-2
(D) P-2, Q-1, R-3

Ans :

(A) P-2, Q-3, R-1
The MUDRA scheme categorizes loans to signify the stage of business growth. 'Shishu' (infant) loans are for starting a business and are capped at ₹50,000. 'Kishor' (adolescent) loans are for business expansion and range from above ₹50,000 up to ₹5 lakh. 'Tarun' (youth) loans support further growth and cover amounts from above ₹5 lakh up to ₹10 lakh.

Oct/Nov 2016

60. Assertion (A): For SHG loans up to ₹10 lakh under DAY-NRLM, banks are not permitted to take any collateral or margin.
Reason (R): These loans are covered under the Credit Guarantee Fund for Micro Units (CGFMU), which mitigates the risk for the lending institution.

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a poor economic base. Crucially, it highlights that they also lack access to knowledge and information, which are identified as most important components of today's development process, thus hindering their progress.

May/June 2020

5. Which of the following is NOT listed as a benefit of SHGs for the development of the poor?
(A) Creating a savings habit among members
(B) Assisting members financially at the time of need
(C) Securing government employment for all members
(D) Mobilising resources of individual members for collective development

Ans :

(C) Securing government employment for all members
While SHGs aim for economic empowerment through activities like entrepreneurship and skill development, securing government employment for every member is not a stated benefit or objective. The benefits listed focus on collective resource mobilization, savings, internal lending, entrepreneurship, problem-solving, and skill training to improve their socio-economic conditions through self-reliance and group effort.

Oct/Nov 2008

6. One of the key functions of an SHG is to foster entrepreneurship development. What does this primarily involve?
(A) Providing members with direct, full-time employment in large, established corporations
(B) Encouraging and supporting members to start and manage small business ventures
(C) Arranging for substantial government grants that do not require any form of repayment
(D) Focusing solely on traditional agricultural activities while excluding other trades or services

Ans :

(B) Encouraging and supporting members to start and manage small business ventures
Entrepreneurship development within the SHG context involves empowering members to identify business opportunities, acquire necessary skills, and access credit to start their own small-scale income-generating activities. This fosters self-employment and economic independence rather than providing direct employment in external organizations or relying solely on grants without a business model.

May/June 2017

7. According to the guidelines for forming an SHG, what is the normal range for the number of members in a group?
(A) 5 to 10 persons
(B) 21 to 30 persons
(C) Any number of persons without a limit
(D) 10 to 20 persons

Ans :

(D) 10 to 20 persons
The guidelines specify that a Self-Help Group generally consists of 10 to 20 persons. This size is considered optimal for effective group dynamics, participation, and management. A group with more than twenty members would typically be required to undergo formal registration, which is generally avoided in the initial stages of SHG formation.

Oct/Nov 2019

8. Under what circumstances can a Self-Help Group be formed with as few as 5 members?
(A) If the group operates in difficult areas like deserts or hills
(B) If the group is located in a metropolitan city
(C) If the group consists exclusively of women
(D) If the group is engaged in high-technology ventures

Ans :

(A) If the group operates in difficult areas like deserts or hills
The standard group size for an SHG is 10 to 20 members. However, an exception is made for groups formed in difficult geographical areas, such as deserts, hills, and sparsely populated regions. In these specific locations, a smaller group size with a minimum of 5 members is considered permissible due to logistical and demographic challenges.

May/June 2011

9. What is the consequence if a Self-Help Group has more than twenty members?
(A) The group is automatically dissolved
(B) The group must seek special permission from the RBI

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(C) Registration of the group becomes compulsory
(D) The group is ineligible for any bank linkage

Ans :

(C) Registration of the group becomes compulsory
The guidelines for SHG formation state that while SHGs are typically informal and unregistered, this status is maintained for groups with a membership of up to twenty. If the number of members exceeds twenty, the group is required to be formally registered under the relevant laws, making registration compulsory for larger groups.

Oct/Nov 2025

10. What is the general family income criterion for members joining a Self-Help Group?
(A) All members should belong to families below the poverty line (BPL)
(B) All members must be from families above the poverty line (APL)
(C) There is no income criterion for membership
(D) Membership is restricted to government employees only

Ans :

(A) All members should belong to families below the poverty line (BPL)
The primary focus of the SHG movement is to empower the poorest sections of society. Therefore, the general guideline is that all members of an SHG should belong to families that are officially classified as being below the poverty line (BPL). This ensures that the benefits of the program are targeted to those most in need.

May/June 2016

11. What is the maximum percentage of members from families marginally above the poverty line (APL) that can be included in an SHG, under exceptional circumstances?
(A) 10%
(B) 20%
(C) 50%
(D) 30%

Ans :

(D) 30%
While the general rule is for all members to be from BPL families, the guidelines provide some flexibility. If necessary, a maximum of 20% of members may be from APL families. This limit can be extended exceptionally to a maximum of 30% for members from families marginally above the poverty line who are living contiguously with BPL families.

Oct/Nov 2007

12. Which statement regarding subsidy eligibility within an SHG is correct?
(A) All members, including both BPL and APL, are eligible for subsidy
(B) Only members from families below the poverty line (BPL) will be eligible for subsidy
(C) Only members from families above the poverty line (APL) are eligible for subsidy
(D) Subsidy eligibility is determined by the bank, not the member's poverty status

Ans :

(B) Only members from families below the poverty line (BPL) will be eligible for subsidy
The guidelines are very specific regarding the distribution of subsidies. Even if an SHG has a mix of BPL and APL members, any available subsidies are to be directed exclusively to those members who belong to families below the poverty line. APL members within the group are not eligible for these targeted financial benefits.

May/June 2024

13. Which of the following is a key rule regarding the management of an SHG with mixed (BPL and APL) membership?
(A) Management must be entirely in the hands of APL families
(B) Office bearers of the group must be selected from APL members
(C) BPL families must participate in management and decision-making
(D) APL members are prohibited from attending group meetings

Ans :

(C) BPL families must participate in management and decision-making
To ensure that the group's focus remains on the empowerment of the poor, the guidelines mandate that BPL families must be actively involved in the management and decision-making processes. It is explicitly stated that management should not be entirely in the hands of APL families, and APL members are not permitted to be office bearers.

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Oct/Nov 2014

14. Identify the correct statement regarding membership restrictions in an SHG.
(A) A family can have multiple members in the same SHG
(B) A person can be a member of multiple SHGs simultaneously
(C) There are no restrictions on membership from the same family
(D) An SHG should not have more than one member from the same family

Ans :

(D) An SHG should not have more than one member from the same family
To ensure wider outreach and prevent domination by a few families, the guidelines impose specific restrictions on membership. A key rule is that an SHG should not include more than one member from the same family. Additionally, an individual is not permitted to be a member of more than one SHG at the same time.

May/June 2008

15. What is the purpose of the 'Code of Conduct' for a Self-Help Group?
(A) It is a set of group management norms devised by the group itself to bind its members
(B) It is a formal legal document drafted by a lawyer for mandatory court submission
(C) It is a set of centrally issued, binding rules published by the Reserve Bank of India
(D) It is a formal guideline published by banks on how to interact with affiliated SHGs

Ans :

(A) It is a set of group management norms devised by the group itself to bind its members
The 'Code of Conduct' refers to the internal rules, regulations, and norms that the SHG members collectively devise and agree upon for self-governance. This code helps in maintaining discipline, ensuring regular attendance, timely savings, proper loan utilization, and repayment, thereby binding the group together and ensuring its smooth functioning and sustainability.

Oct/Nov 2021

16. How is the corpus of a Self-Help Group primarily built?
(A) Through government grants and subsidies only
(B) Through regular savings contributed by its members
(C) Through loans taken from commercial banks
(D) Through donations from international non-profit organizations

Ans :

(B) Through regular savings contributed by its members
The foundation of an SHG's financial strength is its corpus. This corpus fund is built primarily through the small, regular savings that are consistently contributed by each member of the group. This practice of thrift and regular saving is a core discipline of the SHG model, forming the initial capital for internal lending and group activities.

May/June 2013

17. What is the designated use of the corpus fund built by an SHG?
(A) To invest in the stock market for high returns
(B) To advance loans to the members of the group
(C) To pay salaries to the group's office bearers
(D) To be kept as a fixed deposit permanently in a bank

Ans :

(B) To advance loans to the members of the group
The corpus fund, which is accumulated from the members' own savings, is primarily intended to be used for internal lending. This allows the group to advance small loans to its members to meet their consumption, social, and small-scale production needs, thereby reducing their dependence on informal moneylenders and fostering financial discipline through a cycle of lending and recovery.

Oct/Nov 2006

18. Where is it preferable for a Self-Help Group to open its bank account?
(A) In the service area bank branch
(B) In any private sector bank in the nearest city
(C) In a foreign bank branch to facilitate international aid
(D) In the head office of a nationalized bank

Ans :

(A) In the service area bank branch
The guidelines recommend that an SHG should open its group bank account preferably

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in the bank branch designated as the 'service area branch'. This approach facilitates better monitoring, support, and a stronger relationship between the bank and the SHG, as the service area bank is responsible for meeting the banking needs of that specific locality.

May/June 2022

19. Which of the following records is NOT mentioned as a compulsory basic record to be maintained by an SHG?
(A) Minutes book
(B) Loan ledger
(C) Individual members' CIBIL reports
(D) Attendance register

Ans :

(C) Individual members' CIBIL reports
An SHG is expected to maintain simple and basic records to ensure transparency and accountability. These include a minutes book, attendance register, loan ledger, general ledger, cash book, and passbooks. Individual members' CIBIL reports are part of the formal credit information system and are not a basic record maintained internally by the SHG itself.

Oct/Nov 2010

20. Assertion (A): SHGs, whether registered or unregistered, are eligible to open savings bank accounts.
Reason (R): The primary condition for opening a bank account is that the SHG is actively engaged in promoting savings habits among its members.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
(C) (A) is true but (R) is false
(D) (A) is false but (R) is true

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
The assertion that both registered and unregistered SHGs can open bank accounts is true. The reason provided is also true and correctly explains the rationale behind this eligibility. Banks are advised to allow SHGs to open accounts based on their function of promoting thrift and savings, rather than their formal registration status, to encourage financial inclusion.

May/June 2019

21. What is the typical range for the savings-to-loan ratio when banks sanction savings-linked loans to SHGs?
(A) Ranging from 1:0.5 to 1:1
(B) Ranging from 1:5 to 1:10
(C) Ranging from 1:1 to 1:4
(D) Fixed at a ratio of 1:2 for all groups

Ans :

(C) Ranging from 1:1 to 1:4
Under the SHG-Bank Linkage Programme, banks can sanction savings-linked loans to SHGs. The loan amount is often determined based on the group's savings. The typical ratio of savings to loan varies from 1:1 to 1:4. For matured and well-performing SHGs, banks may even consider sanctioning loans beyond this proportion based on their assessment.

Oct/Nov 2024

22. Consider the following statements about lending to SHGs:
1. Banks have the discretion to decide the interest rates on loans to SHGs as per regulatory guidelines.
2. For matured SHGs, lending can be sanctioned even beyond the 1:4 savings-to-loan ratio.

Which of the statements is/are correct?
(A) Only 1
(B) Only 2
(C) Both 1 and 2
(D) Neither 1 nor 2

Ans :

(C) Both 1 and 2
Both statements are correct. The RBI has given banks the freedom to decide the interest rates on loans to SHGs, subject to their own policies and overall regulatory guidelines. Additionally, while a common lending benchmark is the savings-to-loan ratio of up to 1:4, banks are permitted to lend even beyond this for matured SHGs with a good track record.

May/June 2010

23. What is the maximum loan amount per member for which banks are instructed not to levy any service or inspection charges for eligible priority sector loans to SHGs/JLGs?
(A) ₹10,000
(B) ₹50,000
(C) ₹1,00,000

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(D) ₹25,000

Ans :

(D) ₹25,000
To reduce the cost of credit for small borrowers and promote financial inclusion, banks have been advised not to levy any service charges or inspection charges on eligible priority sector loans to Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) up to an amount of ₹25,000 per member. This makes small-ticket loans more affordable for the poor.

Oct/Nov 2013

24. If an SHG itself is not in default, how should a bank view a loan application from the group if some of its individual members are defaulters on their personal loans?
(A) The presence of individual defaulters should not detract from financing the SHG
(B) The bank should reject the SHG's loan application immediately
(C) The bank should finance the SHG but exclude the defaulting members from the loan
(D) The bank should finance the SHG only after the individual members clear their dues

Ans :

(A) The presence of individual defaulters should not detract from financing the SHG
The guidelines emphasize the principle of group accountability. If the SHG as a collective entity has a clean repayment record and is not in default, the bank should not be deterred from financing it, even if some of its members are defaulters in their individual capacities. The lending decision is based on the group's creditworthiness.

May/June 2007

25. What is the role of banks regarding capacity building and training under the SHG-Bank Linkage Programme?
(A) To outsource all training activities to external agencies
(B) To provide training only to the leaders of the SHGs
(C) To organize exclusive short-duration programmes for their field-level functionaries
(D) To avoid any involvement in training to focus solely on lending

Ans :

(C) To organize exclusive short-duration programmes for their field-level functionaries
The success of the SHG-Bank Linkage Programme depends on the understanding and skills of bank staff. Therefore, banks are advised to internalize the project and take responsibility for capacity building. This includes organizing exclusive short-duration training programmes specifically for their field-level functionaries who directly interact with and manage the SHG portfolio.

Oct/Nov 2005

26. At which forums should the monitoring and review of the SHG bank linkage programme be discussed?
(A) At the State Level Bankers' Committee (SLBC) and District Consultative Committee (DCC) meetings
(B) At the bank's annual general meeting and board meetings only
(C) At international banking conferences
(D) At the SHG's internal weekly meetings

Ans :

(A) At the State Level Bankers' Committee (SLBC) and District Consultative Committee (DCC) meetings
To ensure effective implementation and address operational issues, the progress of the SHG bank linkage programme is required to be monitored and reviewed at established institutional forums. The appropriate platforms for these discussions are the State Level Bankers' Committee (SLBC) and the District Consultative Committee (DCC) meetings, which involve various stakeholders including banks and government agencies.

May/June 2015

27. What is the requirement regarding SHG loan data and Credit Information Companies (CICs)?
(A) Only SHG loans above ₹1,00,000 need to be reported to CICs
(B) Reporting to CICs is optional for banks
(C) SHG loan data is exempt from being reported to any CIC
(D) Credit information reporting for SHG loans should be done as prescribed

Ans :

(D) Credit information reporting for SHG loans should be done as prescribed

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(B) They are directly managed and fully funded by a dedicated central government agency.
(C) They offer large, interest-free loans to all members for any requested purpose.
(D) They operate as a collective, overcoming individual weaknesses and lack of access to information.

Ans :

(D) They operate as a collective, overcoming individual weaknesses and lack of access to information.
The text explicitly states that while an individual is weak and lacks access to knowledge and information, in a group, they are empowered to overcome these weaknesses. SHGs work by pooling resources, skills, and courage, allowing the members to achieve social and economic goals collectively that would be impossible for them to achieve individually.

Oct/Nov 2006

60. The SHG-Bank Linkage Programme is designed to meet the entire credit requirements of the group. Which of the following needs is NOT explicitly mentioned as being covered?
(A) Credit for income generation activity
(B) Credit for luxury consumption goods
(C) Credit for social needs
(D) Credit for debt swapping

Ans :

(B) Credit for luxury consumption goods
The summary of the chapter states that under the SHG-Bank linkage programme, banks are asked to meet the entire credit requirement of the group for purposes such as income generation, social needs (like health or education), and debt swapping (paying off old, high-cost debt). Credit for luxury consumption goods is not mentioned and is contrary to the developmental objective of the programme.

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to BPL members only (1). 'Restrictions on Membership' (S) includes the rule that a person cannot join more than one group (2).

Oct/Nov 2016

32. Which of the following pairs concerning SHG guidelines is incorrectly matched?
(A) Management of Group : APL members not to be office bearers
(B) Code of Conduct : Devised by the group itself
(C) Building Corpus : Through external borrowings
(D) Bank Account : Preferably in service area bank branch

Ans :

(C) Building Corpus : Through external borrowings
The corpus of an SHG is built through the regular savings contributed by its own members, not through external borrowings. This internal resource mobilization is a fundamental principle of the SHG concept. The other pairs are correctly matched: APL members cannot be office bearers, the code of conduct is self-devised, and the bank account should preferably be in the service area branch.

May/June 2025

33. Consider the following statements regarding the benefits of SHGs:
1. They help in uplifting the living conditions of the poor.
2. They assist in identifying, analysing, and finding solutions to group problems.
3. They focus only on financial assistance and not on skill development.

Which of the above statements is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 only
(D) 1, 2 and 3

Ans :

(A) 1 and 2 only
The text lists several benefits of SHGs. These include uplifting living conditions and collectively identifying and solving problems. Statement 3 is incorrect because SHGs are explicitly mentioned to organize training for skill development, in addition to providing financial assistance. Therefore, their role is holistic, encompassing both financial and non-financial support for members' development.

Oct/Nov 2023

34. Which of the following is the most appropriate description of the SHG concept?
(A) A system of financial intermediation based on peer support and collective action for empowerment
(B) A government-run poverty alleviation scheme that provides fixed monthly stipends to beneficiaries
(C) A corporate social responsibility initiative that is directly managed and funded by large companies
(D) A formal credit union structure requiring significant initial share capital from all its members

Ans :

(A) A system of financial intermediation based on peer support and collective action for empowerment
The SHG model is best described as a form of financial intermediation where a group of peers collectively save, lend among themselves, and eventually access formal credit. The system is built on principles of peer support, mutual trust, and collective action for social and economic empowerment, distinguishing it from government schemes or formal credit unions.

May/June 2021

35. Identify the INCORRECT statement regarding the SHG-Bank Linkage Programme.
(A) Banks can decide the interest rates on loans to SHGs.
(B) Monitoring of SHG lending is discussed at SLBC and DCC meetings.
(C) SHGs must be formally registered to open a savings bank account.
(D) Banks should organize training for their field-level functionaries.

Ans :

(C) SHGs must be formally registered to open a savings bank account.
The guidelines explicitly state that SHGs, whether registered or unregistered, are eligible to open savings bank accounts with banks. The key condition is that they are engaged in promoting savings habits. Therefore, the statement that formal registration is a must for opening an

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Which of the above statements is/are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 3 only
(D) 1, 2 and 3

Ans :

(B) 2 and 3 only
The text lists the cash book and individual members' passbooks as records an SHG should maintain. However, a 'visitors book' is not mentioned in the list of compulsory basic records. The "Check Your Progress" section also confirms that a visitors book is not compulsory. Therefore, only statements 2 and 3 are correct based on the provided content.

May/June 2005

45. Which of the following four statements regarding SHG formation and management are correct?
1. Registration is compulsory if a group has 21 members.
2. APL members can constitute up to 35% of the group in exceptional cases.
3. BPL families must not be involved in the group's decision-making.
4. An SHG must devise its own Code of Conduct to bind itself.

(A) 1 and 4 only
(B) 2 and 3 only
(C) 1, 2, and 4 only
(D) 1, 3, and 4 only

Ans :

(A) 1 and 4 only
Statement 1 is correct, as registration is compulsory for groups with more than 20 members. Statement 4 is also correct, as groups should devise their own norms. Statement 2 is incorrect; the exceptional limit for APL members is 30%, not 35%. Statement 3 is incorrect; BPL families must participate in management and decision-making.

Oct/Nov 2011

46. Based on the source, which of the following group compositions would be considered invalid? "Family Income Criteria: Generally, all members should belong to families below the poverty line (BPL). If necessary, maximum 20% and exceptionally upto 30% of members may be from families marginally above the poverty line (APL) living contiguously with BPL families."
(A) A 10-member group with 8 BPL and 2 APL members.
(B) A 20-member group with 15 BPL and 5 APL members, cited as an exceptional case.
(C) A 15-member group with 10 BPL and 5 APL members, cited as an exceptional case.
(D) A 12-member group with 12 BPL and 0 APL members.

Ans :

(C) A 15-member group with 10 BPL and 5 APL members, cited as an exceptional case.
The exceptional limit for APL members is 30%. In a 15-member group, 30% is $15 \times 0.30 = 4.5$, meaning a maximum of 4 members can be from APL families. A group with 5 APL members (33.3%) exceeds this exceptional limit. The other options are valid: (A) is 20%, (B) is 25% (within the 30% exceptional limit), and (D) is 0%.

May/June 2020

47. A bank sanctions a priority sector loan of ₹2,50,000 to an SHG with 10 members. The loan per member is ₹25,000. The bank levies a processing charge of ₹1,000 on this loan. According to the source, is the bank's action justified? "Service/Processing Charges: No service charges/inspection charges should be levied on loans up to ₹25,000 per member, in case of eligible priority sector loans to SHGs/JLG."
(A) Yes, because the total loan amount is high.
(B) No, because no service or inspection charges should be levied on such loans.
(C) Yes, because processing charges are different from service charges.
(D) No, because the charge should have been only ₹500.

Ans :

(B) No, because no service or inspection charges should be levied on such loans.
The source clearly states that for eligible priority sector loans to SHGs, no service or inspection charges should be levied if the loan amount is up to ₹25,000 per member. In this case, the loan per member is exactly ₹25,000, so the bank is not justified in levying any processing charge. The total loan amount is irrelevant.

Oct/Nov 2008

48. An SHG with an excellent repayment history applies for a new loan. The bank's records show that two of its twelve members have defaulted on

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Ans :

(A) Creating savings habit
While all options are benefits, creating a savings habit is most directly linked to improving the fundamental financial literacy and discipline of the members. This regular practice of thrift teaches the value of money, planning for the future, and the discipline of setting aside funds, which is the cornerstone of all other financial activities within the group.

May/June 2023

41. Assertion (A): The SHG-Bank Linkage Programme allows banks to consider lending to SHGs as part of their mainstream credit operations.
Reason (R): The RBI has advised banks that SHG lending qualifies under priority sector advances, making it a viable business proposition.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
(C) (A) is true but (R) is false
(D) (A) is false but (R) is true

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
The assertion that banks can treat SHG lending as mainstream credit is true. The reason is also true and provides the correct explanation. By classifying SHG loans under the priority sector, the RBI has integrated this activity into banks' core business and regulatory requirements, encouraging them to view it not as a mere social obligation but as a mainstream operational activity.

Oct/Nov 2017

42. Arrange the following steps in the logical life cycle of an SHG's financial journey as implied by the text:
1. Accessing bank loan through linkage programme
2. Building a corpus through regular savings
3. Engaging in internal lending among members
4. Opening a group savings bank account
(A) 2, 4, 3, 1
(B) 4, 2, 1, 3
(C) 2, 3, 4, 1
(D) 1, 4, 2, 3

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Ans :

(C) 2, 3, 4, 1
The logical progression starts with the group forming and building its own corpus through regular member savings (2). They then use this corpus for internal lending to build financial discipline (3). Subsequently, the group opens a bank account to manage its funds formally (4). Finally, after proving its creditworthiness through internal operations, it becomes ready to be linked to a bank for larger loans (1).

May/June 2014

43. Match the entity/concept (List-I) with its relevant role/feature (List-II) in the SHG ecosystem.
List-I
P. SLBC/DCC
Q. Service Area Bank Branch
R. APL Member
S. Corpus Fund
List-II
1. Cannot be an office bearer in the group
2. Source for internal lending to members
3. Forum for monitoring SHG-Bank Linkage
4. Preferred location for SHG bank account
(A) P-1, Q-2, R-3, S-4
(B) P-3, Q-4, R-1, S-2
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-2, S-1

Ans :

(B) P-3, Q-4, R-1, S-2
The correct matching is: SLBC/DCC (P) are the forums for monitoring the SHG-Bank Linkage programme (3). The Service Area Bank Branch (Q) is the preferred location for the SHG's bank account (4). An APL member (R) is not permitted to be an office bearer in the group (1). The Corpus Fund (S) is the primary source for internal lending among members (2).

Oct/Nov 2022

44. Consider the following statements about SHG record-keeping:
1. Maintaining a visitors book is compulsory for all SHGs.
2. A cash book is one of the basic records an SHG should maintain.
3. Individual members' passbooks are part of the group's records.

account is incorrect and contradicts the goal of promoting financial inclusion for informal groups.

Oct/Nov 2015

36. An SHG consists of 15 members. Based on the income criteria, how many members at most can be from APL families under normal circumstances?
(A) 2
(B) 4
(C) 5
(D) 3

Ans :

(D) 3
The guideline states that if necessary, a maximum of 20% of members may be from families marginally above the poverty line (APL). For a group of 15 members, 20% would be $15 \times 0.20 = 3$. Therefore, under normal circumstances, a maximum of 3 members can be from APL families in a 15-member group.

May/June 2009

37. Which of the following four elements—(1) Regular Meetings, (2) Regular Savings, (3) Internal Lending, (4) Timely Repayment—are considered the foundational pillars of a well-functioning SHG, often referred to as its 'Panchasutras' (though not explicitly named, these are the core practices)?
(A) 1, 2, and 3 only
(B) 2, 3, and 4 only
(C) 1, 3, and 4 only
(D) 1, 2, 3, and 4

Ans :

(D) 1, 2, 3, and 4
The core operational discipline of a successful SHG revolves around several key practices. These include holding regular meetings, ensuring all members contribute their regular savings, conducting internal lending from the pooled corpus, and maintaining a culture of timely repayment of loans. These interconnected activities ensure the group's financial health, discipline, and sustainability over time.

Oct/Nov 2020

38. Consider the following statements:
Statement I: The corpus fund of an SHG should be used exclusively to advance loans to its members.
Statement II: An SHG must maintain a minutes book, attendance register, and loan ledger.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Ans :

(A) Both Statement I and Statement II are correct.
Both statements accurately reflect the guidelines presented. The text explicitly directs that the corpus fund should be used to advance loans to members. It also lists the minutes book, attendance register, and loan ledger among the simple basic records that the group should maintain to ensure proper functioning and transparency in its operations.

May/June 2006

39. Which of the following is an exception-based rule in the formation of an SHG?
(A) The group should consist of 10 to 20 members.
(B) A person can be a member of only one group.
(C) Only BPL members are eligible for subsidy.
(D) Up to 30% of members can be from APL families.

Ans :

(D) Up to 30% of members can be from APL families.
The general rule for income criteria is that a maximum of 20% of members may be from APL families. However, the text mentions that "exceptionally upto 30%" of members can be from APL families. This makes the 30% limit an exception to the normal 20% ceiling, whereas the other options represent standard, non-exceptional rules.

Oct/Nov 2009

40. From the list of benefits of SHGs, which one is most directly related to improving the financial literacy and discipline of its members?
(A) Creating savings habit
(B) Mobilising resources for collective development
(C) Entrepreneurship development
(D) Organise training for skill development

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their individual two-wheeler loans from the same bank. What should be the bank's course of action based on the source? "Presence of defaulters in SHGs: If SHG is not in default, some members being defaulter should not detract from financing the SHG."

(A) Reject the loan as it involves members with a history of default.
(B) Approve the loan for the group, as the group itself is not a defaulter.
(C) Approve a reduced loan amount, factoring in the risk from the two defaulters.
(D) Put the loan application on hold until the two members clear their personal dues.

Ans :

(B) Approve the loan for the group, as the group itself is not a defaulter.
The source provides a clear directive: if the SHG as an entity is not in default, the presence of some members who are defaulters in their individual capacity should not prevent the bank from financing the group. The principle of collective responsibility and the group's own track record are the primary considerations for the lending decision.

May/June 2017

49. An SHG maintains a detailed minutes book, a cash book, and a bank passbook. However, it does not maintain a separate loan ledger. Based on the source, is the group's record-keeping compliant? "Records: It should maintain simple basic records such as minutes book, attendance register, loan ledger, general ledger, cash book, bank passbook of the group and individual members' passbooks."

(A) Yes, as long as the minutes book contains all loan details.
(B) Yes, because maintaining a cash book and passbook is sufficient.
(C) No, because a loan ledger is specifically mentioned as a basic record to be maintained.
(D) No, because it also needs to maintain audited annual financial statements.

Ans :

(C) No, because a loan ledger is specifically mentioned as a basic record to be maintained.
The source explicitly lists the 'loan ledger' as one of the simple basic records that an SHG should maintain. This record is crucial for tracking loans disbursed to members, repayments, and outstanding balances. The absence of a dedicated loan ledger indicates non-compliance with the prescribed record-keeping practices, even if other records are maintained.

Oct/Nov 2019

50. A newly formed SHG has accumulated savings of ₹10,000 in its bank account. It applies for its first loan from the bank. Based on the typical ratio mentioned in the source, what is the maximum loan amount the bank would likely sanction? "Lending to SHGs: SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4), and for matured SHGs even beyond this proportion."

(A) ₹10,000
(B) ₹20,000
(C) ₹40,000
(D) ₹50,000

Ans :

(C) ₹40,000
The source specifies that banks may sanction savings-linked loans with a savings-to-loan ratio varying from 1:1 to 1:4. To find the maximum likely loan, we apply the highest ratio of 1:4. With savings of ₹10,000, the maximum loan amount based on this ratio would be ₹10,000 × 4 = ₹40,000. Lending beyond this is reserved for matured SHGs.

May/June 2011

51. The 'Sahayata' SHG operates in a remote hilly region. It consists of 6 members who are all from BPL families. They have been saving regularly for a year and now want to open a bank account to apply for a loan. The bank manager is hesitant, citing the group size is below the usual 10-member norm. Is the manager's hesitation justified?

(A) Yes, the minimum size for any SHG is strictly 10 members.
(B) No, because in difficult areas like hills, a group can have as few as 5 members.
(C) Yes, because a 6-member group is too small to manage a bank loan effectively.
(D) No, because the number of members is irrelevant for opening a bank account.

Ans :

(B) No, because in difficult areas like hills, a group can have as few as 5 members.

NODIA

To integrate SHGs into the formal credit information system, banks are required to report data on loans disbursed to SHGs to the Credit Information Companies (CICs). The guideline states that this credit information reporting should be done as prescribed by the regulatory authorities, ensuring that the credit history of these groups is systematically recorded.

Oct/Nov 2012

28. Which of the following is NOT listed as a keyword associated with the chapter on Self-Help Groups?
(A) Joint Liability Group (JLG)
(B) Foreign Exchange Management
(C) Below Poverty Line (BPL)
(D) Entrepreneurship Development

Ans :

(B) Foreign Exchange Management
The keywords listed are Self-Help Group, Joint Liability Group, Linkage, Capacity building, Micro-finance, Thrift, Entrepreneurship Development, Team Work, Skill Development, and Below Poverty Line (BPL). These terms are all directly related to the concepts discussed in the chapter. Foreign Exchange Management is a distinct area of banking and is not a keyword for this topic.

May/June 2018

29. Identify the incorrect statement based on the summary of the chapter.
(A) An SHG is typically an unregistered group of less than 20 persons.
(B) SHG members are encouraged to make voluntary savings on a regular basis.
(C) Members of an SHG are from a heterogeneous class with diverse economic backgrounds.
(D) The SHG-Bank linkage programme helps groups access larger resources from the bank.

Ans :

(C) Members of an SHG are from a heterogeneous class with diverse economic backgrounds.
The summary states that members of an SHG are from a homogeneous class, meaning they share a similar socio-economic background. This homogeneity is a key factor that fosters mutual trust and understanding within the group. A heterogeneous class with diverse backgrounds would contradict this fundamental principle of SHG formation.

Oct/Nov 2018

30. What is the primary purpose of an SHG using its savings to make interest-bearing loans to its members?
(A) To compete with commercial banks in the lending market
(B) To generate maximum profit for the group's leaders
(C) To fulfill a regulatory requirement imposed by the government
(D) To help members meet immediate credit needs and learn financial discipline

Ans :

(D) To help members meet immediate credit needs and learn financial discipline
The practice of internal lending, where the group uses its own savings to give interest-bearing loans to members, serves a dual purpose. It provides members with timely access to credit for their various needs, and it also functions as a training ground for learning the basic processes of saving, lending, and recovering money responsibly.

May/June 2012

31. Match the guideline for forming an SHG (List-I) with its corresponding description (List-II).
List-I
P. Number of Members
Q. Family Income Criteria
R. Subsidy Eligibility
S. Restrictions on Membership
List-II
1. Only BPL members are eligible.
2. A person cannot be a member of more than one group.
3. Normally should not exceed twenty.
4. Generally, all members should be from BPL families.
(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-3, Q-4, R-1, S-2
The correct matching is as follows: 'Number of Members' (P) corresponds to the rule that it normally should not exceed twenty (3). 'Family Income Criteria' (Q) corresponds to the guideline that members should generally be from BPL families (4). 'Subsidy Eligibility' (R) is restricted

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RBI and is non-negotiable. Is the information provided by the field officer accurate?
(A) Yes, the RBI fixes a uniform interest rate for all SHG loans to ensure fairness.
(B) No, the interest rate is decided by the central government, not the RBI.
(C) No, banks can decide their own interest rates for SHG loans as per regulatory guidelines.
(D) Yes, but the fixed rate is 9% per annum, not 7%.

Ans :

(C) No, banks can decide their own interest rates for SHG loans as per regulatory guidelines.
The information provided by the field officer is inaccurate. The text clearly states that under the SHG-Bank Linkage Programme, banks can decide the interest rates on loans to SHGs. These rates are determined by the banks themselves based on their own policies and in accordance with overall regulatory guidelines, not fixed at a specific percentage by the RBI.

Oct/Nov 2014

56. Which of the following is NOT a primary objective of the SHG movement as implied by the text?
(A) To replace the entire formal banking system in rural areas.
(B) To provide a platform for collective social and economic empowerment.
(C) To create a savings habit and pool resources for mutual benefit.
(D) To offer a credit delivery system to reach the unreached.

Ans :

(A) To replace the entire formal banking system in rural areas.
The SHG movement is designed to complement the formal banking system, not replace it. The SHG-Bank Linkage Programme is a clear example of this synergy, where informal groups are linked with formal financial institutions. The goal is financial inclusion and empowerment, working in tandem with banks to provide credit to the unreached sections of society.

May/June 2008

57. Identify the correct combination of statements about Self-Help Groups.
1. The concept is described as a 'silent revolutionary concept' in credit delivery.
2. An SHG can have a maximum of 25 members without requiring registration.
3. The group's corpus fund is primarily built through member savings.
4. Monitoring of SHG lending is done at the branch level only.
(A) 1 and 3 only
(B) 2 and 4 only
(C) 1, 2, and 3 only
(D) 1 and 4 only

Ans :

(A) 1 and 3 only
Statement 1 is correct as the text calls it a silent revolutionary concept. Statement 3 is also correct as the corpus is built from member savings. Statement 2 is incorrect; the maximum number without registration is 20. Statement 4 is incorrect; monitoring is discussed at SLBC and DCC meetings, not just at the branch level.

Oct/Nov 2021

58. A bank is considering an SHG for a loan. Which of the following factors is most crucial for the bank to assess the group's readiness for credit linkage?
(A) The group's history of regular savings and successful internal lending and recovery.
(B) The specific educational qualifications and degrees held by the group members.
(C) The known political affiliations or connections of the members of the group.
(D) The total estimated value of physical assets owned by the individual members.

Ans :

(A) The group's history of regular savings and successful internal lending and recovery.
The summary highlights that a group that has learned the basic process of saving, lending, and recovering money is ready to be linked to the bank. This internal financial discipline is the most reliable indicator of the group's creditworthiness and its ability to manage a larger loan from a formal institution, more so than individual members' assets or education.

May/June 2013

59. What is the primary reason that SHGs are considered effective in empowering the poor?
(A) They provide guaranteed, permanent employment to all participating members.

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The manager's hesitation is not justified. While the general norm for an SHG is 10 to 20 members, the guidelines provide a specific exception for groups operating in difficult areas like deserts and hills. In such locations, a group can be formed with as few as 5 members. Since the 'Sahayata' SHG is in a hilly region, its 6-member size is permissible.

Oct/Nov 2025

52. The 'Pragati' SHG has 10 members. The group leader, who is from an APL family, handles all the record-keeping and makes all lending decisions. The other 9 members are from BPL families and are only asked to attend meetings for their savings contributions. Is this management structure compliant with SHG guidelines?

(A) Yes, as long as an APL member is efficient in management.
(B) Yes, because APL members bring better financial acumen to the group.
(C) No, because BPL families must participate in management and APL members cannot be office bearers.
(D) No, because the group leader must always be elected from a BPL family by a government official.

Ans :

(C) No, because BPL families must participate in management and APL members cannot be office bearers.
This structure is non-compliant. The guidelines explicitly state that BPL families must participate in the management and decision-making of the group. Furthermore, it is specified that members from APL families are not to be office bearers. In this case, the APL member is acting as the de facto leader, and BPL members are excluded from decision-making.

May/June 2016

53. An SHG named 'Uday' applies for a bank loan. The group has a perfect record of savings and internal loan repayments. During scrutiny, the bank finds that two members of the group, a husband and his wife, are both part of 'Uday' SHG. What is the implication of this finding?

(A) It is acceptable as it strengthens the family's commitment to the group.
(B) It is a violation of the rule that an SHG should not have more than one member from the same family.
(C) It is permissible if the family is from a BPL category.
(D) It is only a minor irregularity and can be ignored by the bank.

Ans :

(B) It is a violation of the rule that an SHG should not have more than one member from the same family.
The group's composition violates a key membership restriction. The guidelines for forming SHGs clearly state that a group should not have more than one member from the same family. This rule is in place to ensure a wider spread of benefits across different households and to prevent any single family from dominating the group's affairs.

Oct/Nov 2007

54. The 'Vikas' SHG, a well-performing, matured group with ₹50,000 in savings, applies for a loan of ₹3,00,000 for a group enterprise. The bank manager wants to reject the application, stating that the loan amount (at a 1:6 ratio) exceeds the maximum permissible savings-to-loan ratio of 1:4. Is the manager's reasoning correct?

(A) Yes, the 1:4 ratio is a strict upper limit for all SHG loans.
(B) No, because for matured SHGs, banks can sanction loans even beyond the 1:4 ratio.
(C) Yes, because such a high loan amount requires collateral, which SHGs cannot provide.
(D) No, because the ratio can be extended to 1:10 for any SHG with a good savings record.

Ans :

(B) No, because for matured SHGs, banks can sanction loans even beyond the 1:4 ratio.
The manager's reasoning is incorrect. While the typical lending ratio is up to 1:4, the guidelines explicitly mention that "for matured SHGs even beyond this proportion" can be considered. Since 'Vikas' SHG is a well-performing, matured group, the bank has the discretion to assess its credit needs and lend beyond the standard 1:4 ratio based on the project's viability.

May/June 2024

55. A bank's field officer is promoting SHG loans in a village. He informs a group that the interest rate for all SHG loans is fixed at 7% per annum by the

NODIA

CHAPTER 42

Essentials of Bank Computerisation

Oct/Nov 2017

1. What was the prevailing attitude of most Indian banks towards computerizing their operations before the year 1983?

(A) An aggressive approach to adopt cutting-edge global technologies.

(B) A passive view, with minimal proactive steps towards automation.

(C) A government-mandated rapid computerization drive was already in progress.

(D) A focus on networking branches, but not on internal operations.

Ans :

(B) A passive view, with minimal proactive steps towards automation.

Before 1983, the majority of banks in India had adopted a passive stance regarding the computerization of their operations. It was only after 1983, spurred by the First Report of the Rangarajan Committee, that more energetic activities commenced to introduce significant technological changes in the banking sector's computers and communications infrastructure.

May/June 2010

2. Which committee, constituted in 1988, was tasked with drawing up a perspective plan for the computerization of banks for the five-year period of 1990-94?

(A) The second committee under the chairmanship of Dr. C. Rangarajan.

(B) The Narasimham Committee on Financial System Reforms.

(C) The Saraf Committee on Technology Issues in Banking.

(D) The first Rangarajan Committee on bank mechanisation.

Ans :

(A) The second committee under the chairmanship of Dr. C. Rangarajan.

Following the initial momentum gained from the first report in 1984, another committee was established in 1988. This committee, also chaired by Dr. C. Rangarajan, was specifically responsible for creating a forward-looking, five-year perspective plan for bank computerization covering the period from 1990 to 1994, continuing the modernization efforts.

Oct/Nov 2024

3. Which of the following is NOT listed as one of the four major objectives of bank computerisation?

(A) Improvement in customer service

(B) Enhancement of housekeeping

(C) Reduction of workforce

(D) Improvement in productivity and profitability

Ans :

(C) Reduction of workforce.

The primary objectives of bank computerisation focus on operational and service enhancements. These include improving customer service, bettering housekeeping (internal record-keeping), enabling more effective decision-making, and boosting overall productivity and profitability. The goal was to make work more meaningful for employees rather than just replacing them with machines.

May/June 2005

4. At the Regional and Head Office level, what is the primary purpose of computerisation?

(A) To directly handle customer-facing transactions and manage daily cash flow at the counter.

(B) To manage daily branch-level staff attendance, process payroll, and handle leave requests.

(C) To exclusively manage the bank's investment portfolio in the government securities market.

(D) To store, analyse, and retrieve data from branches for internal control and policy formulation.

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duplexing to prevent data loss from disk failure, regular backups, and UPS to avert system failures.

May/June 2008

12. What major shift in the banking environment occurred in the mid-'90s, moving beyond simple branch-level mechanisation?

(A) The introduction of mobile banking applications for all customers.
(B) The move towards Total Branch Automation in a multi-user computer environment.
(C) The complete discontinuation of physical branch operations.
(D) The mandatory adoption of blockchain technology for all transactions.

Ans :

(B) The move towards Total Branch Automation in a multi-user computer environment.
The mid-1990s marked a significant evolution in Indian banking technology. Banks began transitioning from isolated, stand-alone systems to Total Branch Automation (TBA) or Total Branch Mechanisation. This involved implementing a multi-user computer environment where the majority of banking products and transactions were computerised and integrated within the branch.

Oct/Nov 2020

13. A customer enters a bank branch that has implemented 'Total Branch Automation'. The customer wishes to deposit a cheque, withdraw cash, and get a statement of account. How does TBA facilitate this?

(A) The customer must visit three separate counters, one for each specific type of transaction.
(B) The customer must first use a stand-alone machine to get a numbered token for each service required.
(C) The customer can complete all transactions at any single counter, demonstrating the 'single window' concept.
(D) The teller can only process one type of transaction (e.g., only deposits) per customer per visit.

Ans :

(C) The customer can complete all transactions at any single counter, demonstrating the 'single window' concept.
A key achievement of Total Branch Automation was the implementation of the 'single window' concept. This integration of various banking modules allows a customer to approach any single counter to perform multiple types of transactions. The system enables the teller to handle diverse requests, significantly improving customer convenience and service efficiency at the branch.

May/June 2017

14. In the context of computerisation at a Regional/ Zonal Office, what do the 'fixed particulars' of a branch profile typically include?

(A) Budgeted business volumes and actual performance data.
(B) Income and expenditure data and various statistical reports.
(C) Details of all loans and advances sanctioned by the branch.
(D) Branch location details, type of premises, and area classification like urban or rural.

Ans :

(D) Branch location details, type of premises, and area classification like urban or rural.
The branch profile maintained at the Regional/ Zonal Office consists of two components: fixed and variable particulars. The fixed particulars are static details that do not change frequently. These include the branch's location information (state, district, city), whether the premises are rented or owned, and its geographical classification (metropolitan, urban, semi-urban, rural).

Oct/Nov 2005

15. What is the primary purpose of the personnel data management function at the Regional/ Zonal office level?

(A) To manage a database of employees for workforce planning, promotions, and transfers.
(B) To process the monthly salaries and reimbursements of all bank employees in the region.
(C) To monitor the daily attendance of staff at various branches using an automated system.
(D) To handle and resolve customer complaints related to specific employee behaviour or service issues.

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Ans :

(A) In a central computer or server connected to multiple terminals via a network.
The architecture of a multi-user computer network is based on a centralised model. All information is stored and processed in a central computer, referred to as a server. This central server possesses high processing speed and large storage, allowing numerous users to connect through terminals and access the centralised resources and data.

Oct/Nov 2019

9. Based on the text below, which option is NOT an advantage of centralised data processing?
"Advantages of Centralised data processing are:
(a) Provides services to customers of any branch or using any delivery channel. This is called anywhere, anytime banking
(b) Corporate-level information is made available to branch level users.
(c) Cost of acquiring hardware, software and other infrastructure for centralized data processing is economical than acquiring the same for individual departments
(d) Due to the high volume of data processing, the computing resources can be fully utilised
(e) Skilled technical manpower can also be efficiently managed at a central level"

(A) It enables the implementation of 'anywhere, anytime banking'.
(B) It allows for the efficient central management of skilled technical manpower.
(C) It requires individual departments to acquire their own hardware and software.
(D) It makes corporate-level information accessible to users at the branch level.

Ans :

(C) It requires individual departments to acquire their own hardware and software.
The provided text explicitly states that a key advantage of centralised data processing is that the cost of acquiring infrastructure is more economical than if individual departments were to acquire it separately. Therefore, the statement that it requires individual departments to acquire their own hardware and software is directly contrary to the stated benefits.

May/June 2025

10. What were the systems known as ALPMs, used during the first phase of branch-level mechanisation?
(A) Automatic Ledger Posting Machines for specific products like Savings and Loan accounts.
(B) Automated Loan Processing Modules used for comprehensive credit appraisal reports.
(C) Advanced Ledger Printing Machines designed for generating large-volume end-of-day reports.
(D) All-purpose Ledger Management Protocol for creating a fully integrated banking environment.

Ans :

(A) Automatic Ledger Posting Machines for specific products like Savings and Loan accounts.
In the initial phase of computerisation, banks adopted branch-level mechanisation using systems called ALPMs, which stands for Automatic Ledger Posting Machines. These were essentially stand-alone systems designed to handle the transactions of specific products, such as Savings, Current, and Loan accounts, but they were not interconnected with each other.

Oct/Nov 2011

11. Which of the following was a key security feature in the early branch-level computerisation systems?
(A) Biometric authentication, such as fingerprint scanners, for all customer transactions.
(B) End-to-end encryption for all data transmitted over the early and insecure internet.
(C) Mandatory use of sophisticated firewalls and intrusion detection systems at every branch location.
(D) Features like disk mirroring, regular backups, and provision for uninterrupted power supply.

Ans :

(D) Features like disk mirroring, regular backups, and provision for uninterrupted power supply.
In early branch-level computerisation, security was focused on system reliability and data integrity rather than network threats, as there was no internet exposure. Security features were built into the hardware and operating system, including password protection, disk mirroring/

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Ans :

(D) To store, analyse, and retrieve data from branches for internal control and policy formulation.
At the administrative levels like Regional and Head Offices, computerisation serves a strategic purpose. It is used to consolidate data received from various branches. This allows for efficient storage, analysis, and retrieval of information, which is crucial for strengthening internal controls over the branch network and for formulating bank-wide policies and strategies.

Oct/Nov 2012

5. What were the key characteristics of the stand-alone computer systems deployed during the initial stages of bank computerisation?
(A) They were multi-user systems designed for high-volume transaction processing.
(B) They were primarily used for networking all bank branches across the country.
(C) They were used by one person at a time and were best suited for decision-making processes.
(D) They had high processing speeds and vast data storage capacities.

Ans :

(C) They were used by one person at a time and were best suited for decision-making processes.
In the early phases of computerisation, banks used stand-alone systems. These were single-user machines, meaning they could be operated by only one person at a time. Their primary utility was in processing and analysing data to support the decision-making functions of managers and executives, rather than handling large-scale, multi-user transactional workloads.

May/June 2022

6. Identify the statement that correctly describes a limitation of single-user, stand-alone computer systems.
(A) They possessed high processing speed and large data storage capacity for complex tasks.
(B) They suffered from limitations such as slow processing speed and low data storage capacity.
(C) They were prohibitively expensive for most branches and required complex, custom-built software.
(D) They were incapable of handling multimedia, advanced graphics, or any form of internet access.

Ans :

(B) They suffered from limitations such as slow processing speed and low data storage capacity.
While stand-alone systems offered advantages like low cost and easy training, they had significant drawbacks. Their inherent design as single-user machines meant they generally had slower processing speeds and limited data storage capacity compared to larger, multi-user systems. These limitations made them unsuitable for high-volume, enterprise-wide transaction processing environments.

Oct/Nov 2006

7. Which of the following categories of computers fall under the classification of multi-user systems?
(A) Only Microcomputers and Minicomputers.
(B) Only Main Frame Computers and Super Computers.
(C) Only specialised banking terminals and workstations.
(D) Microcomputers, Minicomputers, Main Frame Computers, and Super Computers.

Ans :

(D) Microcomputers, Minicomputers, Main Frame Computers, and Super Computers.
Multi-user systems are defined as computers that can be accessed by several people simultaneously. This category is broad and encompasses a wide range of computer types, from smaller systems like Microcomputers and Minicomputers to large, powerful systems such as Main Frame Computers and Super Computers, all capable of supporting multiple concurrent users.

May/June 2014

8. In a Multi-user Computer Networking system, where is information typically kept and processed?
(A) In a central computer or server connected to multiple terminals via a network.
(B) Locally on each user's terminal, which has its own high processing power and storage.
(C) On a distributed network of peer-to-peer computers where each machine acts as a client and server.
(D) In offline storage devices, such as magnetic tapes, which are manually updated daily.

NODIA

Ans :

(A) To manage a database of employees for workforce planning, promotions, and transfers.
Personnel data management at the regional/ zonal level involves maintaining a comprehensive database of employees within that region. This database, containing details on qualifications, seniority, training, and posting history, is crucial for strategic human resource functions. It aids management in making informed decisions regarding workforce requirements, deployment, promotions, transfers, and career planning.

May/June 2021

16. Which of the following represent key application areas for computerisation at a bank's Head Office level?
1. Investment Portfolio management
2. Daily customer cash deposits and withdrawals
3. Credit information system
4. Front-office transaction processing

(A) 1 and 2 only
(B) 1 and 3 only
(C) 2 and 4 only
(D) 3 and 4 only

Ans :

(B) 1 and 3 only
Computerisation at the Head Office level focuses on bank-wide strategic functions rather than daily branch transactions. Key application areas include Investment Portfolio Management for maximising returns on assets, and the Credit Information System for enterprise-wide credit planning and monitoring. Daily cash transactions and front-office processing are branch-level activities.

Oct/Nov 2013

17. How does computerisation at the Head Office level aid in effective funds management?
(A) By automatically investing surplus branch funds into the stock market at the end of each day.
(B) By providing online information from key branches to manage balances with RBI and investments.
(C) By physically transferring large amounts of cash between branches to meet local withdrawal demands.
(D) By setting and enforcing strict limits on the amount of cash that any single branch can hold overnight.

Ans :

(B) By providing online information from key branches to manage balances with RBI and investments.
Effective funds management requires timely information on deposits and withdrawals, which can vary significantly day-to-day. A communication network linking branches to the Head Office computer provides quick and accurate data on the business positions of branches. This enables the Head Office to effectively manage funds, ensuring compliance with RBI stipulations on balances.

May/June 2015

18. What is the primary target of investment portfolio management in a bank, supported by computerised analytical tools?
(A) To increase the yield on investments by analysing various parameters before investing.
(B) To invest exclusively in high-risk, high-return assets like equity and derivatives.
(C) To maintain statutory liquidity by investing only in safe government securities and bonds.
(D) To minimize the portion of the bank's total assets that are invested in any type of securities.

Ans :

(A) To increase the yield on investments by analysing various parameters before investing.
While banks must invest a substantial portion of assets in approved securities for liquidity, the yield from these is often lower than from commercial loans. The goal of investment portfolio management, aided by software and analytical tools, is to analyze various parameters to select and manage investments in a way that maximizes the return.

Oct/Nov 2023

19. Based on the objectives listed below for a computerised credit information system, what is its overarching purpose?
"The major objectives are:
(a) to have up-to-date information on all borrower accounts for the entire Bank,
(b) to generate various statutory statistical reports and control returns,
(c) to reduce the drudgery of work at all levels,

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(d) to ensure timely and accurate availability of data and to generate exceptional reports for management information,
(e) to facilitate the review and renewals of borrowal accounts,
(f) to make available consolidated information of borrower accounts as one entity."

(A) To exclusively automate the generation of statutory reports.
(B) To reduce the workload of only the Head Office credit department.
(C) To provide comprehensive, timely, and consolidated credit information for planning and monitoring.
(D) To focus solely on the renewal process of large corporate borrowal accounts.

Ans :

(C) To provide comprehensive, timely, and consolidated credit information for planning and monitoring.
The listed objectives, including maintaining up-to-date data, generating reports, facilitating renewals, and providing consolidated information, all point to a single, comprehensive purpose. The system is designed to provide a complete, accurate, and timely view of credit information across the bank, which is essential for both strategic credit planning and effective monitoring of loan accounts.

May/June 2019

20. Which set of characteristics is essential for a high-performance computer network in a financial institution?
(A) Open, unregulated, and low-cost.
(B) Decentralized, anonymous, and intermittent.
(C) Simple, non-scalable, and locally managed.
(D) Secure, reliable, scalable, and optimized.

Ans :

(D) Secure, reliable, scalable, and optimized.
The network infrastructure is the backbone of a modern financial institution, and it must meet stringent requirements to ensure uninterrupted service delivery. It is essential for the network to be secure against threats, reliable to prevent downtime, scalable to accommodate growth, and optimized for maximum speed and efficiency in data transmission.

Oct/Nov 2009

21. What is the most accurate definition of a Local Area Network (LAN)?
(A) A global network connecting computers across different continents.
(B) A wireless network exclusively for mobile devices.
(C) A network linking computers and peripherals within a localized area, such as a building.
(D) A theoretical model for computer interconnection.

Ans :

(C) A network linking computers and peripherals within a localized area, such as a building.
A Local Area Network, or LAN, is a data communication network that interconnects computers, network devices like printers and scanners, and other peripherals within a limited and specific geographical area. This localized area is typically a single office, a group of offices, or an entire building, but not a wider region.

May/June 2023

22. What is the general maximum distance a Local Area Network (LAN) will extend when using Cat5e cables?
(A) 10 meters
(B) 100 meters
(C) 1 kilometer
(D) 40 kilometers

Ans :

(B) 100 meters
The physical reach of a LAN is dependent on the medium used for connection. For networks established using the common Cat5e cabling standard, the signal integrity and performance are generally maintained up to a distance of 100 meters. Beyond this, signal degradation can occur, requiring devices like repeaters to extend the network's reach.

Oct/Nov 2018

23. Network topologies are categorized into two basic forms of design based on control. What are these two forms?
(A) Wired control and Wireless control.
(B) Hierarchical control and Peer-to-Peer control.
(C) Internal control and External control.
(D) Centralised control and Distributed control.

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Ans :

(D) Centralised control and Distributed control.
The fundamental designs for local area networks are classified based on how control and data flow are managed. The two basic forms are centralised control, where a central device manages the network (e.g., star and tree topologies), and distributed control, where control is shared among the nodes (e.g., ring and bus topologies).

May/June 2007

24. What is the method of operation for transferring data over networks, where a message is broken down into smaller units, called?
(A) Packet switching
(B) Circuit switching
(C) Message switching
(D) Signal switching

Ans :

(A) Packet switching
Packet switching is the standard method for data transmission in modern networks. In this process, a larger message is divided into smaller, manageable units known as packets. Each packet contains a portion of the data and a header with source and destination information, allowing them to be routed independently through the network to the destination.

Oct/Nov 2025

25. Which statement accurately describes a key characteristic of a bus topology?
(A) All devices are connected in a closed-loop, and data travels sequentially in one direction.
(B) Each device is connected to a central hub, and all network traffic must pass through it.
(C) All devices are connected to a single continuous cable, and a workstation failure does not affect the network.
(D) The network is arranged in a hierarchical structure with a single root node and multiple branches.

Ans :

(C) All devices are connected to a single continuous cable, and a workstation failure does not affect the network.
In a bus topology, all network nodes are connected to a common, single backbone cable. An advantage of this setup is its resilience to individual node failure; if one workstation on the network fails, it does not interrupt communication for the rest of the devices. However, a failure in the main cable itself will disable the network.

May/June 2012

26. What is the primary disadvantage of a ring topology?
(A) The breakdown of any single station on the ring can disable the entire LAN.
(B) It is very difficult and expensive to set up due to complex cabling requirements.
(C) It offers limited flexibility for change and has a very large geographic spread limitation.
(D) It cannot handle large traffic volumes as everything must pass through a single central node.

Ans :

(A) The breakdown of any single station on the ring can disable the entire LAN.
In a ring topology, devices are connected in a closed loop, and data is passed sequentially from one node to the next. This sequential dependency is its major weakness. If any single workstation or a section of the cable in the ring fails, it breaks the loop, thereby disabling the entire network.

Oct/Nov 2014

27. Which of the following is a defining feature of a star topology?
(A) All nodes are connected to a single continuous cable, forming a linear backbone.
(B) Information is passed from one node to the other in a closed-loop, sequential series.
(C) It is constructed in a hierarchical form with root, intermediate, and leaf nodes.
(D) All nodes are connected to a central node (master) by a separate cable.

Ans :

(D) All nodes are connected to a central node (master) by a separate cable.
The star topology is characterized by its central-hub design. Every node on the network is connected directly to a central device, such as a hub or switch, via its own dedicated cable. This central node acts as the master, managing and relaying all communication between the other nodes on the network.

May/June 2016

28. Assertion (A): A star topology network is highly resilient to the failure of an individual node.

NODIA

Reason (R): In a star topology, every transaction between any two nodes has to pass through the central node.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
Assertion (A) is true; since each node has a separate connection to the hub, the failure of one node does not affect others. Reason (R) is also true; all traffic is routed through the central node. However, (R) explains a potential bottleneck or disadvantage, not the reason for its resilience to node failure.

Oct/Nov 2010

29. A network topology that has a root node, intermediate nodes, and leaf nodes, and is constructed in a hierarchical form, is known as a:
(A) Ring Topology
(B) Bus Topology
(C) Tree Topology
(D) Star Topology

Ans :

(C) Tree Topology
A tree topology resembles a real-world tree structure and is inherently hierarchical. It starts with a head node, known as the root node, which branches out to intermediate nodes. These, in turn, can branch out further, ending in leaf nodes that have no child nodes. This structure is essentially a hybrid of bus and star topologies.

May/June 2020

30. In computer science, what is a "protocol"?
(A) A physical hardware device that connects different types of computer networks.
(B) A specific software application, like Outlook or Gmail, for sending and receiving emails.
(C) A specific type of network cable, like fiber optic, used for high-speed data transfer.
(D) A set of rules or procedures for transmitting data between electronic devices.

Ans :

(D) A set of rules or procedures for transmitting data between electronic devices.
A protocol is a standard set of rules that governs communication between electronic devices. For two devices to communicate effectively, they must "speak the same language" by adhering to the same protocol. These rules define everything from message formats and error handling to the sequence of transmission, ensuring orderly and successful data exchange.

Oct/Nov 2015

31. What is the name of the listen-before-transmit media sharing system used in an Ethernet network?
(A) Carrier-Sense Multiple Access with Collision Detection (CSMA/CD)
(B) Token Passing System
(C) Time-Division Multiple Access (TDMA)
(D) Frequency-Division Multiple Access (FDMA)

Ans :

(A) Carrier-Sense Multiple Access with Collision Detection (CSMA/CD)
Ethernet technology uses a system called Carrier-Sense Multiple Access with Collision Detection (CSMA/CD). In this method, a station 'listens' to the channel to check if it is clear before transmitting. If two stations transmit simultaneously, a 'collision' occurs. The system detects this, and both stations stop and wait for a random period before retransmitting.

May/June 2013

32. Consider the following description: "In the 'token-ring, the token circulates when all stations are idle. When a station wants to transmit data, it must wait until it detects a token passing by. It seizes the token and transforms it into a start-of-packet sequence for its data packet."
This describes a media-access control system that is:
(A) Probabilistic
(B) Deterministic
(C) Collision-based
(D) Uncontrolled

Ans :

(B) Deterministic
The token-ring system is described as a deterministic media-access control system. This is because access to the network is not random or based on chance. A station can only transmit

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when it possesses the special 'token' frame. This controlled, turn-based method ensures that collisions do not occur, making the network's behavior predictable and orderly.

Oct/Nov 2021

33. A network administrator is setting up a LAN and wants to ensure that data transmission occurs in an orderly fashion without collisions, using a turn-based approach. Which protocol would be the most appropriate choice for this requirement?
(A) Ethernet
(B) Token-Ring
(C) CSMA/CD
(D) WAP

Ans :

(B) Token-Ring
The requirement for an orderly, turn-based system without collisions points directly to the Token-Ring protocol. Unlike Ethernet's CSMA/CD which handles collisions after they occur, Token-Ring is a deterministic protocol that prevents collisions. A station must wait for and capture a special 'token' before it is granted the authority to transmit on the network.

May/June 2024

34. Match the network device in List-I with its primary function in List-II.
List-I (Device)
P. Hub
Q. Switch
R. Router
S. Gateway
List-II (Function)
1. Acts as a gate between two very dissimilar networks.
2. Forwards data packets between different computer networks.
3. Broadcasts data to every device connected to it.
4. Connects multiple devices and routes information intelligently to the specific destination device.

(A) P-3, Q-4, R-2, S-1
(B) P-4, Q-3, R-1, S-2
(C) P-3, Q-2, R-4, S-1
(D) P-1, Q-3, R-2, S-4

Ans :

(A) P-3, Q-4, R-2, S-1
A Hub (P) is a simple device that broadcasts data to all connected ports (3). A Switch (Q) is more intelligent, routing data only to the intended recipient device (4). A Router (R) operates at a higher level, forwarding packets between different networks (2). A Gateway (S) serves as an entry point connecting two dissimilar networks (1).

Oct/Nov 2008

35. What is the fundamental difference between the function of a Bridge and a Router?
(A) A Bridge connects dissimilar networks, while a Router connects similar networks.
(B) A Router is a hardware device, while a Bridge is purely a software component.
(C) A Bridge creates a single, aggregate network from two separate networks, while a Router allows multiple networks to remain separate but communicate.
(D) A Bridge forwards data packets, while a Router only amplifies signals.

Ans :

(C) A Bridge creates a single, aggregate network from two separate networks, while a Router allows multiple networks to remain separate but communicate.
The core distinction lies in how they handle network separation. Bridging connects two separate networks as if they were a single, larger network. In contrast, routing allows multiple distinct networks to communicate with each other while maintaining their independence and separate identities. A router directs traffic between these independent networks.

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May/June 2006

36. Which network device is specifically designed to act as a gate between two very dissimilar networks?
(A) Repeater
(B) Hub
(C) Switch
(D) Gateway

Ans :

(D) Gateway
A Gateway serves as a crucial entry and exit point between different networks, especially those that are very dissimilar in their protocols or architecture. While a router connects similar networks, a gateway performs the necessary

protocol conversions to translate data between two fundamentally different network environments, acting as a true "gate" between them.

Oct/Nov 2022

37. What is the primary function of a Firewall in a network?

(A) To amplify weak network signals in order to extend their effective range over a distance.

(B) To physically connect multiple devices together on a single local area network segment.

(C) To monitor and control incoming and outgoing network traffic based on predetermined security rules.

(D) To convert digital signals to analog signals for transmission over telephone lines and back.

Ans :

(C) To monitor and control incoming and outgoing network traffic based on predetermined security rules.

A firewall is a network security system that acts as a barrier between a trusted internal network and an untrusted external network, such as the Internet. Its main purpose is to monitor all incoming and outgoing traffic and decide whether to allow or block it based on a defined set of security rules.

May/June 2018

38. What does WAP stand for, and what is its purpose?

(A) Wireless Access Point; it creates a wireless local area network.

(B) Wireless Application Protocol; it is a specification to standardize internet access for wireless devices.

(C) Wide Area Protocol; it is a protocol for connecting networks over large distances.

(D) Wired-Access Protocol; it standardizes connections for wired devices.

Ans :

(B) Wireless Application Protocol; it is a specification to standardize internet access for wireless devices.

WAP stands for Wireless Application Protocol. It is a set of communication protocols designed to create a standard way for wireless devices, like mobile phones and radio transceivers, to access internet services. These services include the web, email, newsgroups, and instant messaging, formatted appropriately for small screens and low-bandwidth connections.

Oct/Nov 2016

39. A bank needs to extend its LAN coverage to a distant corner of its large office building, where the signal has become weak. Which network device should be used to amplify or regenerate the signal?

(A) Router

(B) Switch

(C) Modem

(D) Repeater

Ans :

(D) Repeater

A Repeater, also known as a signal booster, is a network device specifically designed for this purpose. Its function is to receive an incoming network signal, clean it of any noise, regenerate it to its original strength, and then retransmit it. This process effectively extends the geographical coverage area of a network.

May/June 2009

40. What is the function of a Modem (modulator-demodulator)?

(A) It converts data between digital and analog formats for transmission over telephone lines.

(B) It routes data packets between different computer networks using IP addresses.

(C) It establishes a strong security barrier between a trusted internal network and an untrusted network.

(D) It connects multiple devices together on a single network segment, broadcasting data to all of them.

Ans :

(A) It converts data between digital and analog formats for transmission over telephone lines.

A modem's name, a portmanteau of modulator-demodulator, describes its function. It modulates a computer's outgoing digital signals into analog signals suitable for transmission over an analog medium like a telephone line. At the receiving end, it demodulates the incoming analog signal back into a digital format that the receiving computer can understand.

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Oct/Nov 2007

41. Statement I: One of the disadvantages of using LANs in banks is the high maintenance cost.
Statement II: Another disadvantage is that security risks are lower because each user accesses the host computer independently.
(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Ans :

(C) Statement I is correct, but Statement II is incorrect.
Statement I is correct; the text lists high maintenance cost as a disadvantage of LAN. However, Statement II is incorrect. The text explicitly states that security risks are higher, not lower, precisely because each user can access the host computer independently. This increased access creates more potential points of vulnerability for the system.

May/June 2011

42. How is a Wide Area Network (WAN) defined in the context of banking?
(A) A large-scale computer network used to interconnect branches with regional/zonal and head offices.
(B) A small-scale network connecting all devices within a single branch office building.
(C) A specialized high-speed network that operates at higher speeds and capacity than a standard LAN.
(D) A network that exclusively uses satellite links for all its long-distance communication.

Ans :

(A) A large-scale computer network used to interconnect branches with regional/zonal and head offices.
A Wide Area Network (WAN) is a large-scale network covering a sizeable geographic area. In the banking sector, WANs are primarily used for interconnectivity over long distances. They form the communication backbone that links individual branches to their respective regional or zonal offices, and in turn, connects these offices to the central head office.

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Oct/Nov 2017

43. A new, large bank branch is being set up in a multi-storied building. The bank needs to connect approximately 50 computers, several printers, and scanners for shared use, all within this single building. Which type of network is most appropriate for this scenario?
(A) Wide Area Network (WAN)
(B) Metropolitan Area Network (MAN)
(C) Personal Area Network (PAN)
(D) Local Area Network (LAN)

Ans :

(D) Local Area Network (LAN)
A Local Area Network (LAN) is the ideal solution for this scenario. A LAN is specifically designed to interconnect computers and peripheral devices within a localized geographical area, such as a single office or building. It allows for the efficient sharing of resources like printers and servers among all the connected devices within the branch.

May/June 2010

44. What is a key characteristic of a microwave communication system used in a WAN?
(A) It uses underground fiber optic cables for high-speed, long-distance data transmission.
(B) Signals are transmitted between dish antennas in a direct line of sight, typically not more than 40 kms apart.
(C) It relays signals via a geostationary communications satellite orbiting the Earth.
(D) It uses standard telephone lines and requires a modem at each end to convert signals.

Ans :

(B) Signals are transmitted between dish antennas in a direct line of sight, typically not more than 40 kms apart.
Microwave systems are a method for establishing WAN connectivity. They involve the transmission of signals from a dish antenna to a receiving dish antenna at the next microwave station. A critical requirement is that these stations must be in a direct line of sight with each other and are typically located about 40 kilometers apart.

Oct/Nov 2024

45. What is the essential purpose of an Uninterrupted Power System (UPS) in a banking environment?
(A) To increase the processing speed and computational power of the main computer

servers.
(B) To function as the primary, long-term power source for an entire data centre facility.
(C) To protect IT assets from damage due to unexpected power disruptions like blackouts or surges.
(D) To actively reduce the overall electricity consumption of network equipment and servers.

Ans :

(C) To protect IT assets from damage due to unexpected power disruptions like blackouts or surges.
An Uninterrupted Power System (UPS) is a protective device. Its primary role is to shield an organization's critical IT assets, like servers and network equipment, from various power problems. These include blackouts, brownouts, and surges, which can cause serious business disruption, data loss, and physical damage to the equipment if not mitigated.

May/June 2005

46. A "brownout" is a type of power problem that a UPS protects against. What does it signify?
(A) A complete and sudden loss of electrical power from the utility company.
(B) A short but significant drop in voltage, often 10% or more below the nominal level.
(C) A dangerous oversupply of voltage from the power company, also known as a surge.
(D) A voltage drop from its normal level to a lower level, which then returns to normal.

Ans :

(D) A voltage drop from its normal level to a lower level, which then returns to normal.
A brownout is a specific type of power fluctuation where the voltage supplied by the power utility drops from its normal level to a lower level for a period and then returns to normal. A UPS conditions this power, ensuring that the connected sensitive IT equipment continues to receive a stable and clean power supply.

Oct/Nov 2012

47. What is the key difference between an Online UPS and an Offline UPS?
(A) An Online UPS constantly provides converted power, while an Offline UPS switches to battery power during a failure.
(B) An Online UPS is used for critical servers, while an Offline UPS is mainly used for desktop workstations.
(C) An Online UPS provides power from the battery only during a failure, while an Offline UPS always powers the load from its battery.
(D) An Online UPS has a significantly longer changeover time to battery power than an Offline UPS.

Ans :

(A) An Online UPS constantly provides converted power, while an Offline UPS switches to battery power during a failure.
In an Online UPS, the power supplied to the computer is always derived from the UPS's inverter, which is constantly running (double-conversion). This ensures a perfectly clean supply. In an Offline (stand-by) UPS, the computer is powered directly from the mains, and the UPS only switches to its battery and inverter during a power failure.

May/June 2022

48. A bank's data centre manager needs to select a UPS for their critical servers. The primary requirement is to ensure there is absolutely no interruption or fluctuation in the power supplied to the servers, even when the main power is available. Which type of UPS should be chosen?
(A) Offline UPS, because it is more energy-efficient.
(B) Online UPS, because it continuously provides clean, converted power.
(C) A generator, as it is a type of UPS.
(D) A surge protector, as it serves the same function.

Ans :

(B) Online UPS, because it continuously provides clean, converted power.
The requirement for a perfectly stable and uninterrupted power supply, with no changeover time, points directly to an Online UPS. It continuously converts AC mains to DC to charge the battery and then converts it back to clean AC for the servers. This double-conversion process isolates the equipment from all mains power problems, making it ideal for critical systems.

Oct/Nov 2006

49. Which of the following statements best defines Core Banking?

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(A) A decentralized model where each bank branch operates on its own independent database system.
(B) A centralised branch computerisation model with a central database and online transaction processing.
(C) A simplified system focused only on the core functions of cash deposit and cash withdrawal.
(D) The selective computerisation of only a bank's head office and its treasury operations.

Ans :

(B) A centralised branch computerisation model with a central database and online transaction processing.
Core Banking is defined by its centralised architecture. It is a model where all branches are connected to a central host and a single, central database. All transactions are processed online and in real-time on this central system, rather than at the branch level, enabling concepts like 'anywhere, anytime banking' and providing a unified view of the customer.

May/June 2014

50. Which of the following is NOT typically considered a business component of a Core Banking Solution (CBS)?
(A) Stand-alone branch accounting software
(B) Retail customer banking modules
(C) Interface with payment systems like RTGS and NEFT
(D) Trade finance and forex modules

Ans :

(A) Stand-alone branch accounting software
A Core Banking Solution (CBS) is an integrated, centralised system. Its components include modules for retail banking, trade finance, and interfaces with various payment and delivery channels. A stand-alone branch accounting software represents a decentralised approach, which is the opposite of the core banking philosophy, where all data and processing are handled centrally.

Oct/Nov 2019

51. Based on the text below, which option is a benefit of adopting a Core Banking Solution (CBS)?
"Benefits of CBS:
(a) Enables customer services 24 × 7 from any branch/delivery channel
(b) Facilitates data warehousing and data mining technologies for business intelligence
(c) Eases the implementation of integrated customer-centric services like online ATMs
(d) Standardisation of the branch automation software using a single version"
(A) It requires different software versions for each branch.
(B) It restricts customer service to home branch working hours.
(C) It facilitates the use of data mining for business intelligence.
(D) It hinders the implementation of customer-centric services like online ATMs.

Ans :

(C) It facilitates the use of data mining for business intelligence.
The provided text explicitly lists several benefits of CBS. Among them is that it "Facilitates data warehousing and data mining technologies for business intelligence." By creating a reliable centralised data repository, CBS provides the high-quality, consolidated historical data necessary for effective data warehousing and subsequent analysis through data mining techniques.

May/June 2025

52. How does a Core Banking Solution (CBS) facilitate Business Process Re-engineering (BPR)?
(A) By reinforcing old, inefficient manual processes with the addition of new technology.
(B) By creating different, customized business processes for each individual branch in the network.
(C) By increasing the number of tedious jobs like manual data backup and reconciliation at the branch level.
(D) By providing a unified technology platform to streamline existing processes and adopt best practices.

Ans :

(D) By providing a unified technology platform to streamline existing processes and adopt best practices.
CBS acts as a catalyst for Business Process Re-engineering (BPR). It enables banks to move away from outdated, fragmented processes and streamline their operations. The technology platform allows the bank to realign its business

NODIA

a confirmation message is relayed back to the user at the branch.

Oct/Nov 2017

9. Core banking solutions are described as what type of processing systems?
(A) Batch Processing Systems
(B) Offline Transaction Processing Systems
(C) Online Transaction Processing (OLTP) Systems
(D) Delayed Transaction Processing Systems

Ans :

(C) Online Transaction Processing (OLTP) Systems
Core banking solutions are fundamentally Online Transaction Processing (OLTP) systems. This means transactions are processed in real-time. When a transaction is effected, it is simultaneously updated across all relevant sub-systems, including customer account ledgers and the general ledger. This ensures that the bank's books are always current and reflect the true financial position.

May/June 2010

10. Which statement correctly describes the relationship between End of Day (EOD) and Begin of Day (BOD) operations?
(A) BOD for a new day cannot be done if the EOD for the previous working day is not completed
(B) BOD operations can be performed independently, as they only prepare the system for new entries
(C) EOD and BOD operations are designed to be run simultaneously by the Data Centre to save time
(D) EOD is an optional process that can be skipped on holidays, while BOD is always mandatory

Ans :

(A) BOD for a new day cannot be done if the EOD for the previous working day is not completed
The BOD and EOD processes are critically interdependent. The Begin of Day (BOD) process, which opens a new transaction day for the bank, is contingent upon the successful completion of the End of Day (EOD) process from the preceding working day. If EOD fails or is not completed, the system cannot initiate the BOD for the next day.

Oct/Nov 2019

11. Which of the following is listed as a function carried out during Begin of the Day (BOD) operations?
(A) Calculation of minimum balances
(B) Generation of mandatory reports
(C) Taking a day-end backup
(D) Execution of standing instructions

Ans :

(D) Execution of standing instructions
Begin of the Day (BOD) operations include several automated tasks that prepare the system for the day's transactions. Among these, the text explicitly lists the execution of standing instructions, time deposit processing for interest and maturity, value date processing of cheques, salary processing, and handling the expiry of overdraft limits. Other options are typically EOD activities.

May/June 2016

12. Which of the following activities is NOT part of the End of Day (EOD) operations list?
(A) Minimum balances are calculated
(B) Starts a new day
(C) Day end back up is taken
(D) Mandatory reports are generated

Ans :

(B) Starts a new day
The activity of starting a new day is the primary function of the Begin of Day (BOD) process, not the End of Day (EOD) process. EOD operations are focused on closing the business day's transactions and include tasks such as calculating minimum balances, generating reports, taking backups, and documenting activities in registers and log books.

Oct/Nov 2009

13. During EOD operations, what is generated for each transaction that has been entered into the system?
(A) An audit trail
(B) An access log
(C) A transaction number
(D) A supplementary report

Ans :

(C) A transaction number
The chapter outlines several documents and records generated during the End of Day (EOD)

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(C) OLTP involves quick transactions like insert/update, while OLAP involves complex queries for analytical purposes.
(D) OLTP uses historical, static data, while OLAP uses real-time, dynamic data for its operations.

Ans :

(C) OLTP involves quick transactions like insert/update, while OLAP involves complex queries for analytical purposes.
OLTP (On-line Transaction Processing) environments, like CBS, are optimized for a large number of users performing quick, small transactions such as inserting, updating, and deleting data. In contrast, OLAP (On-line Analytical Processing) environments, like data warehouses, are designed for complex queries that analyze large volumes of data for insights and decision-making.

May/June 2021

58. "The data in a data warehouse is non-volatile. In simple terms, in a transaction processing system like Core Banking, the data is constantly updated and dynamic. In a data warehouse, the instances of data at various points of time (say daily) can be stored statically."
Based on this, what does "non-volatile" mean in the context of a data warehouse?
(A) The data, once loaded, is not subject to constant real-time updates and is stored as static historical snapshots.
(B) The data is never updated and remains completely static and unchanged forever.
(C) The data is stored in a volatile memory (like RAM) and is lost when power is turned off.
(D) The data is highly dynamic and changes instantly with every new transaction entered into the system.

Ans :

(A) The data, once loaded, is not subject to constant real-time updates and is stored as static historical snapshots.
The term "non-volatile" in a data warehouse context means that the data is stable and not subject to the continuous, real-time changes typical of a transactional (OLTP) system. Data is loaded periodically (e.g., daily) and stored as a static, historical record. This stability is crucial for consistent analysis and reporting over time.

Oct/Nov 2013

59. What is the key difference between a data lake and a data warehouse?
(A) A data warehouse stores unstructured data like text and images, while a data lake stores only structured data.
(B) A data lake is a smaller, more focused version of a data warehouse, often called a data mart.
(C) A data warehouse is used for real-time streaming analytics, while a data lake is for historical reporting only.
(D) A data lake stores vast amounts of raw data without a predefined structure, unlike a highly structured data warehouse.

Ans :

(D) A data lake stores vast amounts of raw data without a predefined structure, unlike a highly structured data warehouse.
The primary distinction is in the structure of the stored data. A data warehouse is highly structured, with data being transformed and loaded for well-defined purposes. In contrast, a data lake is a vast repository that stores raw data, both structured and unstructured, in its original format without a predefined schema or purpose.

May/June 2015

60. A bank's marketing department wants to identify customers who are most likely to be interested in a new pre-approved credit card offer. They need to analyze past transaction behavior, demographic information, and loan history from a large customer database. Which technique is most suitable for this task?
(A) Online Transaction Processing (OLTP)
(B) Data Mining
(C) Network Routing
(D) Disaster Recovery

Ans :

(B) Data Mining
This task requires discovering hidden patterns and predictive information from a large dataset, which is the core purpose of data mining. By applying data mining techniques to the customer data stored in a data warehouse, the bank can perform credit risk analysis, identify whom to solicit as a client, and create highly targeted marketing campaigns.

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CHAPTER 43

Operational Aspects of CBS Environment

Oct/Nov 2014

1. In the context of Core Banking Solutions (CBS), what is the fundamental concept that combines two distinct technological fields to meet banking needs?

(A) The merger of Financial Technology and Communication Technology
(B) The merger of Communication Technology and Information Technology
(C) The merger of Artificial Intelligence and Data Science
(D) The merger of Hardware Technology and Software Technology

Ans :

(B) The merger of Communication Technology and Information Technology
Core Banking Solutions (CBS) represent a platform where Communication Technology, which facilitates communication between people and devices, and Information Technology, which governs how computers work, are integrated. This merger creates a robust system to suit the comprehensive needs of modern banking operations, connecting branches and delivery channels to a central server for real-time transaction processing.

May/June 2021

2. Which of the following is NOT an example of a Core Banking Software mentioned in the text?

(A) Tally
(B) Finacle
(C) BaNCS
(D) Flexcube

Ans :

(A) Tally
The text explicitly identifies examples of popular core banking software, which include Finacle developed by Infosys, BaNCS from TCS, and Flexcube from Oracle. Tally, while being a widely used accounting software, is not mentioned as a core banking solution in this context. Core banking software is specifically designed for comprehensive banking operations.

Oct/Nov 2005

3. What is the primary method for connecting bank branches to the central server in a CBS environment?

(A) Through legacy technologies like dial-up connections and internal Local Area Networks (LANs)
(B) Exclusively through public mobile wireless technologies such as 3G/4G cellular networks
(C) Through a combination of technologies like lease lines, MPLS, VSAT, and RF
(D) Solely via a private network of dedicated fiber optic cables installed and managed by the bank

Ans :

(C) Through a combination of technologies like lease lines, MPLS, VSAT, and RF
In a CBS architecture, branches connect to the central server using various networking technologies to ensure reliability and connectivity. The text specifies that these connections are established through lease lines, MPLS (Multiprotocol Label Switching), VSAT (Very Small Aperture Terminal), RF (Radio Frequency), and mobile technologies like 3G/4G, providing a robust and multifaceted network infrastructure.

May/June 2008

4. Which of the following is NOT listed as a common feature or capability of popular Core Banking Solutions?

(A) Asset Classification and Income recognition, NPA Management
(B) Customer relationship management (CRM) activities
(C) Interfaces with payment systems and Alternate delivery channels
(D) Human Resource payroll and attendance management

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Ans :

(D) Human Resource payroll and attendance management

The provided list of common CBS functions includes comprehensive banking operations like customer and office account management, loans, clearing, interest calculation, NPA management, and interfaces with various systems. However, Human Resource functions such as payroll and attendance management are typically handled by separate, dedicated HRMS software and are not listed as a core function of CBS.

Oct/Nov 2023

5. What is a key benefit of CBS regarding inter-branch reconciliations?

(A) It has made them a manual, monthly process
(B) It has eliminated the need for inter-branch reconciliations entirely
(C) It has made them faster, more accurate, and automated
(D) It has outsourced the reconciliation process to third-party vendors

Ans :

(C) It has made them faster, more accurate, and automated

One of the significant advantages of implementing Core Banking Solutions is the vast improvement in back-office operations. Specifically, CBS has transformed inter-branch reconciliations from a cumbersome manual task into a process that is significantly faster, more accurate, and largely automated. This is achieved by centralizing transaction data, which allows for immediate and seamless reconciliation across branches.

May/June 2015

6. According to the text, what are the three primary types of transactions in any Core Banking Solution?

(A) Domestic, International, and Forex
(B) Cash, Clearing, and Transfer
(C) Retail, Corporate, and Treasury
(D) Debit, Credit, and Reversal

Ans :

(B) Cash, Clearing, and Transfer

The chapter identifies three fundamental types of transactions that are processed within a Core Banking Solution. These are cash transactions, which involve physical deposits and withdrawals; clearing transactions, which relate to the processing of cheques and other instruments; and transfer transactions, which involve moving funds between accounts without the direct use of cash or cheques.

Oct/Nov 2011

7. What is the standard security principle followed for transactions initiated by users at a branch in a CBS environment?

(A) Single-factor authentication
(B) Biometric authentication only
(C) Time-based access control
(D) Maker-checker functionality

Ans :

(D) Maker-checker functionality

For transactions conducted at branches, CBS environments enforce a crucial security principle known as maker-checker functionality, also referred to as the four-eye principle. This means one user (the maker) inputs the transaction, and a second, different user (the checker) must authorize it before it is completed, ensuring a layer of verification and preventing unauthorized entries.

May/June 2025

8. What happens immediately after a transaction hits the Central Data Base in a CBS?

(A) The system validates the transaction, processes the debit/credit, and sends a confirmation message
(B) The system automatically logs out the user and closes the session for security reasons
(C) The system queues the transaction and waits for an end-of-day batch process to post all entries
(D) The system generates and sends a one-time password (OTP) to the customer for secondary verification

Ans :

(A) The system validates the transaction, processes the debit/credit, and sends a confirmation message

Once a transaction is submitted and reaches the Central Data Base, the CBS initiates a real-time validation process. This includes verifying the account number, balance, and the authority of the maker and checker. Upon successful validation, the account is debited or credited, and

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Strong password policies in a CBS aim to prevent easy guessing. The guidelines explicitly state that dictionary words should be avoided. Instead, a strong password should be a complex combination of uppercase and lowercase letters, numbers, and at least one special character. Using dictionary words makes a password vulnerable to dictionary-based hacking attacks.

May/June 2019

19. What specific security measure is enforced for passwords in a CBS to protect them from being read directly from the system?

(A) They are stored in the system in encrypted form only
(B) They are printed and stored in a physically locked file cabinet at the data center
(C) They are stored in a file accessible only to the System Administrator in plain text
(D) They are automatically changed by the system on a daily basis for all users

Ans :

(A) They are stored in the system in encrypted form only
To safeguard user credentials, a critical security control in CBS is that passwords are not stored in plain text. Instead, they are stored in the system only in an encrypted or hashed format. This ensures that even if someone gains unauthorized access to the password file, they cannot read the actual passwords of the users.

Oct/Nov 2006

20. What is the procedure for handling the Operating System Password in a branch?

(A) It is known only to the System Administrator, who keeps a private record of it
(B) It is written down and displayed in a secure, but visible, location within the server room
(C) It is changed on a fixed weekly schedule by the central IT team at the head office
(D) It is kept under Dual Control of the Branch Manager and System Administrator

Ans :

(D) It is kept under Dual Control of the Branch Manager and System Administrator
The Operating System Password, being highly critical, requires stringent control. The prescribed practice is to keep it under the dual control of both the Branch Manager and the System Administrator. It should be protected in a sealed cover, and opening it requires the presence of at least two persons, after which it must be changed immediately.

Oct/Nov 2010

21. What is the primary purpose of a Parameter/ Master File in a CBS?

(A) To store the complete transaction history of all active and closed customer accounts
(B) To maintain a real-time, synchronized backup of the entire customer database
(C) To store relevant information like interest rates and commission rates for accounts
(D) To log all user access attempts, successful logins, and activity within the system

Ans :

(C) To store relevant information like interest rates and commission rates for accounts
The Parameter/Master File is a crucial component in CBS that holds the rules and parameters governing how accounts and products operate. This includes information such as the rate of interest to be applied, penal interest to be charged, commission rates, and operation limits. The system software then enforces these predefined parameters during transaction processing.

May/June 2005

22. What is the recommended access level for operators to the Parameter/Master File?

(A) Full read-write access
(B) Write-only access
(C) Read-only access
(D) No access at all

Ans :

(C) Read-only access
To prevent revenue leakage and misuse of funds, it is critical to control access to the Parameter/ Master File. Operators who use the system for daily transactions should only have read-only access to this file. This restriction prevents them from making undesirable modifications to core parameters like interest rates or charges, which must be controlled centrally.

Oct/Nov 2022

23. What procedure must be followed whenever any alteration is made to the Parameter/Master File?

(A) An official email notification should be sent to the head office IT security department
(B) The changes should be communicated verbally to all relevant branch staff members

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process. Among them, it is specified that a unique transaction number is given for each transaction that was entered. This number serves as a unique identifier for tracking, auditing, and referencing the transaction within the bank's records and systems.

May/June 2023

14. After business hours, which report is printed and filed by either the Branch Manager or System Administrators?
(A) The Audit Trail Report
(B) The Cash Denomination Report
(C) The Exceptional Transactions Report
(D) The Supplementary Report

Ans :

(D) The Supplementary Report
As part of the post-business-hours procedures, the text specifies that a Supplementary Report is printed and filed. The responsibility for this task is assigned to either the Branch Manager or the System Administrators. This report is a crucial part of the daily closing documentation, complementing other reports like the Cash Denomination Report and the tallying of vouchers.

Oct/Nov 2018

15. In a scenario where a branch has no local server and terminals connect directly to the Central Server, where are activities like Central EOD and back-ups primarily carried out?
(A) At the Central Data-Centre
(B) At the branch by the Branch Manager
(C) At a designated regional processing hub
(D) By a third-party service provider

Ans :

(A) At the Central Data-Centre
When branches operate without a local branch server and connect directly to the central infrastructure, most server-related activities are managed centrally. This includes critical processes such as Central EOD, back-ups, fall-back procedures, and service restarts. These functions are executed at the Central Data-Centre according to the bank's established procedures for the CBS deployment.

May/June 2007

16. Which of the following is a basic operational control in core banking that mandates the involvement of two different individuals for completing a transaction?
(A) Segregation of Duties
(B) Four Eye Principle/Maker Checker
(C) Rotation of Duties
(D) Ownership of systems

Ans :

(B) Four Eye Principle/Maker Checker
The Four Eye Principle, also known as the Maker-Checker system, is a fundamental operational control in banking. It requires that a transaction be initiated by one person (the maker) and subsequently authorized or verified by a second, independent person (the checker). This dual control mechanism is designed to prevent errors and fraudulent activities.

Oct/Nov 2025

17. What is the minimum character length for a strong password as recommended for a CBS?
(A) Six characters
(B) Eight characters
(C) Ten characters
(D) Twelve characters

Ans :

(B) Eight characters
To enhance security, core banking solutions enforce strong password policies. One of the key controls mentioned is a minimum password length of eight characters. The text further adds the principle that "the more characters, the better," emphasizing that a longer password provides a higher level of security against brute-force and dictionary attacks.

May/June 2012

18. Which of the following is NOT a recommended control for passwords in a CBS environment?
(A) Passwords must be a mixture of letters and numbers.
(B) Passwords should contain both uppercase and lowercase letters.
(C) Passwords should be based on easily remembered dictionary words.
(D) Passwords must include at least one special character.

Ans :

(C) Passwords should be based on easily remembered dictionary words.

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processes, adopt industry best practices, and redesign workflows to deliver enhanced value to customers and gain efficiency.

Oct/Nov 2011

53. Which of the following is an essential requirement for the creation of a Primary Data Centre for a CBS environment?
(A) Housing only the backup servers that are used for disaster recovery purposes.
(B) Operating only during normal banking hours, from 9 AM to 5 PM on weekdays.
(C) A redundant power backup system, such as a combination of Generators and UPS.
(D) Using a decentralized database structure where primary data is stored at individual branches.

Ans :

(C) A redundant power backup system, such as a combination of Generators and UPS.
A Primary Data Centre is the nerve center of a bank's operations and must function continuously. A critical requirement for its creation is having redundant power backup systems. This includes a combination of Uninterrupted Power Systems (UPS) for instantaneous backup and generators for long-term power supply during extended outages, ensuring 24 × 7 availability.

May/June 2008

54. What is a primary objective of establishing a Disaster Recovery Site (DRS) for a bank?
(A) To house the main central servers that process all daily online transactions for the bank.
(B) To maintain continuity of business activities in case of a central system failure or disaster.
(C) To act as a primary training center for the bank's IT personnel and new hires.
(D) To reduce the overall transaction volume and processing load at the Primary Data Centre.

Ans :

(B) To maintain continuity of business activities in case of a central system failure or disaster.
The main purpose of a Disaster Recovery Site (DRS) is to ensure business continuity. It acts as a backup for the Primary Data Centre. In the event of a major failure or disaster at the primary site, the DRS is activated to take over operations, ensuring the non-stop functioning of branches and delivery channels.

Oct/Nov 2020

55. A bank, after implementing a new Core Banking platform, wants to redesign its loan approval process to make it faster and more efficient, leveraging the capabilities of the new technology. This initiative to realign an existing business process is an example of:
(A) Disaster Recovery Planning
(B) Data Warehousing
(C) Network Topology Design
(D) Business Process Re-engineering (BPR)

Ans :

(D) Business Process Re-engineering (BPR)
This scenario is a classic example of Business Process Re-engineering (BPR). The bank is not just computerizing an old process but is fundamentally redesigning and realigning it to take advantage of the benefits provided by the new technology platform. The goal is to improve efficiency and deliver enhanced value, which is the core objective of BPR.

NODIA

May/June 2017

56. For a Core Banking Solution (CBS), what type of communication link should be used as the primary channel for the Wide Area Network (WAN)?
(A) Leased lines or MPLS links
(B) Dial-up telephone lines
(C) Wireless Application Protocol (WAP)
(D) Asynchronous Transfer Mode (ATM)

Ans :

(A) Leased lines or MPLS links
For the critical task of connecting branches to the central data center in a CBS environment, a reliable and high-performance primary communication channel is necessary. The recommended approach is to use dedicated Leased Lines or modern Multi-Protocol Label Switching (MPLS) links for the WAN, ensuring stable and secure connectivity for online transactions.

Oct/Nov 2005

57. What is the fundamental difference between an OLTP and an OLAP environment?
(A) OLTP is used for business analytics, while OLAP is used for daily transaction processing.
(B) OLTP involves a small number of expert users, while OLAP caters to a large number of general users.

(C) The system server should be fully rebooted for the parameter changes to take effect
(D) Printouts of the file before and after the changes should be taken and documented

Ans :

(D) Printouts of the file before and after the changes should be taken and documented
To maintain a clear audit trail and ensure proper governance, any modification to the Parameter/ Master File must be rigorously documented. The standard procedure is to take printouts of the file both before and after the changes are made. These printouts are then documented and kept in the safe custody of the Branch Manager for verification.

May/June 2018

24. Which of the following is NOT listed as an important Master file for a core banking solution?
(A) List of holidays
(B) Master Data of Accounts
(C) Deposit interest rates applicable for various tenors
(D) Employee performance-review file

Ans :

(D) Employee performance-review file
The text provides a list of important master files within a CBS, which includes Master Data of Accounts, general-purpose parameter files, account types, interest rates for advances and deposits, list of holidays, and user work classes. An employee performance-review file is related to Human Resources Management and is not considered a core banking master file.

Oct/Nov 2016

25. What principle of Logical Access Control dictates that users should only be given the permissions essential for their work?
(A) The principle of minimum access level needed to do their job
(B) The principle of open access to promote transparency
(C) The principle of hierarchical access based on employee seniority
(D) The principle of rotational access where permissions change daily

Ans :

(A) The principle of minimum access level needed to do their job
A fundamental concept in information security and logical access control is the principle of least privilege, referred to in the text as providing the "minimum access level needed to do their job." This ensures that users can only access the specific data, applications, and functions that are absolutely necessary for their designated roles, minimizing security risks.

May/June 2014

26. Who is responsible for ensuring that the available security features of an operating system are properly implemented?
(A) The internal auditor
(B) The Branch Manager
(C) The database administrator
(D) The Chief Information Security Officer (CISO)

Ans :

(D) The Chief Information Security Officer (CISO)
The text states that the security policy should address the capabilities of operating systems and that the Chief Information Security Officer (CISO) is responsible for ensuring that these available security features have been implemented. The CISO plays a key role in overseeing the bank's information security posture and enforcing security policies and controls.

Oct/Nov 2007

27. To safeguard data integrity, what should be done with access levels periodically?
(A) They should be expanded to include new functions.
(B) They should be reset for all users.
(C) They should be published on the bank's intranet.
(D) They should be reviewed by the internal auditor.

Ans :

(D) They should be reviewed by the internal auditor.
To ensure that access rights remain appropriate and to detect any unauthorized or excessive permissions, logical access controls must not be static. The text specifies that access levels should be periodically reviewed by the internal auditor. This review process helps maintain data integrity and security by identifying and correcting any deviations from the established access policies.

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May/June 2009

28. Which of the following is a key security control aspect in a computerized bank, related to system failures?

(A) The system restarts without distorting the completion of the records

(B) The system must shut down completely and require a manual restart by an administrator

(C) The system should automatically revert all transactions entered in the last hour of operation

(D) The system sends an immediate automated alert to the financial regulator in case of any failure

Ans :

(A) The system restarts without distorting the completion of the records

A crucial security and operational control is ensuring business continuity. In the event of an interruption due to power, mechanical, or processing failures, the system must be designed to restart in a way that does not distort or corrupt records. It should be able to resume operations gracefully, ensuring the integrity and completion of transaction data.

Oct/Nov 2011

29. What is the recommended ideal frequency and set-count for daily and monthly backups?

(A) Daily in 3 sets, monthly in 6 sets

(B) Daily in 7 sets, monthly in 4 sets

(C) Daily in 6 sets, monthly in 12 sets

(D) Daily in 1 set, monthly in 1 set

Ans :

(C) Daily in 6 sets, monthly in 12 sets

The text outlines a specific, ideal backup strategy to ensure robust data recovery capabilities. It recommends that a daily backup should be taken in 6 sets, providing one for each weekday, and 12 sets should be taken for each month. This grandfather-father-son rotation scheme allows for multiple recovery points and protects against data loss.

May/June 2010

30. Where should backup media be stored to ensure protection and availability in an emergency?

(A) In the Branch Manager's desk drawer for quick access

(B) On an open shelf in the server room for easy retrieval

(C) At a senior employee's residence for off-site security

(D) In a fireproof cabinet secured with a lock and key

Ans :

(D) In a fireproof cabinet secured with a lock and key

Physical security of backup media is as important as the backup process itself. The guidelines state that backup media must be stored in a fireproof cabinet that is secured with a lock and key. This protects the data from physical threats like fire and unauthorized access. Additionally, off-site backups should be preserved for emergency situations.

NODIA

Oct/Nov 2024

31. To prevent data corruption from malicious software, what measure must a bank ensure regarding its servers and PCs?

(A) Install the latest version of anti-virus software and update it regularly

(B) Install any free anti-virus software that is available for download online

(C) Format all PCs on a fixed weekly schedule to remove any potential viruses

(D) Disconnect all PCs and servers from the internet permanently to create an air-gap

Ans :

(A) Install the latest version of anti-virus software and update it regularly

A key security control is to protect systems from malware. Banks must ensure that the latest version of a reputable anti-virus software is installed on all servers and PCs across branches. It is not enough to just install it; the software must be regularly updated with new virus definitions to protect against newly emerging threats.

May/June 2017

32. According to RBI guidelines referenced in the text, what must a bank have in place to handle major IT-related issues like system break-downs?

(A) A dedicated social media team for urgent customer communication and updates

(B) A fully documented process for manual transaction processing using paper ledgers

(C) A comprehensive insurance policy that covers all potential financial losses from downtime

(D) An IT Policy and a Business Continuity Plan/ Disaster Recovery Plan

Ans :

(D) An IT Policy and a Business Continuity Plan/ Disaster Recovery Plan
The text, referencing RBI guidelines, highlights that a bank must have several critical documents and plans. This includes a comprehensive IT Policy, as well as Business Continuity Plans (BCP) and Disaster Recovery (DR) Plans. These are essential for managing major IT issues like data corruption or system breakdowns and ensuring the bank can continue to operate.

May/June 2020

33. Who is required to conduct a System Audit to ensure the technology deployed by a bank is operated in a safe, secure, and efficient manner?
(A) The bank's own IT department
(B) A firm of Chartered Accountants
(C) A representative from the Reserve Bank of India
(D) The vendor of the core banking software

Ans :

(B) A firm of Chartered Accountants
To ensure that the technology for payment systems is being operated securely and as per the process flow submitted to the regulator, banks are required to get a System Audit conducted. The text explicitly states that this audit must be done by a firm of Chartered Accountants, who provide an independent assessment of the bank's IT controls.

Oct/Nov 2015

34. What is the responsibility of the system auditor regarding the process flow submitted to the RBI?
(A) To completely redesign the process flow to achieve better operational efficiency
(B) To grant final approval for the process flow on behalf of the central bank (RBI)
(C) To ensure all bank employees are adequately trained on the approved process flow
(D) To comment on deviations in processes from the submitted flow

Ans :

(D) To comment on deviations in processes from the submitted flow
A key part of the system auditor's role is to verify compliance. The auditor must compare the bank's actual operational processes with the process flow that was originally submitted to the RBI when seeking authorization for the payment system. The auditor is required to comment on any deviations found during this evaluation in their report.

NODIA

May/June 2013

35. Which of the following is NOT included in the scope of the System Audit as described in the text?
(A) Assessment of customer satisfaction levels
(B) Evaluation of the hardware structure
(C) Review of security and controls in place
(D) Evaluation of disaster recovery plans

Ans :

(A) Assessment of customer satisfaction levels
The scope of the System Audit is technical and process-oriented. It includes evaluating hardware, operating systems, critical applications, security controls (like access controls), disaster recovery plans, and personnel training. While customer complaints related to transaction errors are a concern for the bank, a general assessment of customer satisfaction levels is not part of this specific audit scope.

Oct/Nov 2021

36. Identify the incorrect statement regarding the operational environment of Core Banking Solutions (CBS).
(A) CBS is a platform where Communication Technology and Information Technology merge.
(B) Finacle, BaNCS, and Flexcube are examples of CBS software.
(C) CBS has improved housekeeping and helped prevent income leakages.
(D) Branches are connected to the central server exclusively through 4G networking.

Ans :

(D) Branches are connected to the central server exclusively through 4G networking.
The text states that branches are connected to the central server through a variety of technologies, including lease lines, MPLS, VSAT, RF, and 3G/4G. The statement that the connection is exclusively through 4G networking is incorrect, as banks use a mix of technologies to ensure robust and resilient connectivity for their operations.

CHAPTER 44

Alternate Delivery Channels-Digital Banking

May/June 2016

1. Which of the following best describes the primary impact of core banking technology on banking services?

(A) It exclusively promoted the use of paper-based instruments, slowing down transaction processing.

(B) It enabled banks to handle large transaction volumes, paving the way for innovative products and alternate delivery channels.

(C) It restricted banking operations to traditional brick and mortar branches by increasing their administrative load.

(D) It reduced the geographical area of a bank's operations by centralizing all services into a single head office.

Ans :

(B) It enabled banks to handle large transaction volumes, paving the way for innovative products and alternate delivery channels.

Core banking technology was instrumental in allowing banks to manage significantly higher volumes of transactions, which was not feasible with traditional methods. This capacity expansion directly led to the development of innovative products, customized accounts, and the rollout of multiple alternate delivery channels like ATMs, mobile banking, and internet banking, thereby widening their operational scope.

Oct/Nov 2009

2. The committee that recommended the establishment of Automated Teller Machines (ATMs) in India was headed by which of the following individuals?

(A) Dr. C. Rangarajan

(B) M. Narasimham

(C) Dr. Y. V. Reddy

(D) Dr. Bimal Jalan

Ans :

(A) Dr. C. Rangarajan

The introduction and expansion of the ATM network in India received a significant push from policy recommendations. The committee headed by Dr. C. Rangarajan was responsible for recommending the strategic setup of Automated Teller Machines at various key locations like airports, railway stations, and commercial centers to enhance customer convenience and banking accessibility across the country.

May/June 2023

3. What is the primary function of an Automated Teller Machine (ATM) as described in the context of alternate delivery channels?

(A) To exclusively facilitate the opening of new bank accounts for eligible customers.

(B) To serve as a physical point for customer grievance redressal and complaint registration.

(C) To perform banking functions like cash withdrawal or deposit using various types of cards.

(D) To only provide detailed information about the bank's various loan and investment products.

Ans :

(C) To perform banking functions like cash withdrawal or deposit using various types of cards.

Automated Teller Machines (ATMs) are primarily self-service terminals used to perform key banking functions. These include the withdrawal of cash, and in some cases, the deposit of cash or cheques. Customers access these services by using an ATM/debit card, credit card, or prepaid card as permitted by the card-issuing institution for transactions.

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Q. General-purpose parameter files
R. List of holidays
S. Types of users and their work classes

List-II

1. Non-working days for the bank
2. Defines access rights and menu options
3. Core customer and account information
4. System-wide settings and rules

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2
P (Master Data of Accounts) logically matches with 3 (Core customer and account information). Q (General-purpose parameter files) matches with 4 (System-wide settings). R (List of holidays) correctly matches with 1 (Non-working days). S (Types of users and their work classes) matches with 2 (Defines access rights and menu options).

May/June 2011

42. Which of the following statements about Logical Access Control is incorrect?
(A) Users should have the minimum access level needed to do their job.
(B) The password file should be stored in plain text for easy review.
(C) Access levels should be periodically reviewed by the internal auditor.
(D) Users' access should be restricted to specific applications, menus, and files.

Ans :

(B) The password file should be stored in plain text for easy review.
A fundamental security measure under logical access control is the protection of credentials. The text explicitly states that the password file should be encrypted. Storing it in plain text would create a major security vulnerability, making it easy for an attacker to compromise all user accounts if the file is breached.

Oct/Nov 2020

43. Consider the following security control aspects in CBS:
1. Ensure the system prevents unauthorised amendments to the programmes.
2. Ensure the anti-virus software is updated for new viruses.
3. Ensure daily backup is taken in 12 sets and monthly in 6 sets.
4. Ensure access to the computer room is restricted to authorised persons only.

Which of the above statements are correct?
(A) 1, 2 and 3
(B) 2, 3 and 4
(C) 1, 2 and 4
(D) 1, 3 and 4

Ans :

(C) 1, 2 and 4
Statements 1, 2, and 4 are correct security controls mentioned in the text. Statement 3 is incorrect because the ideal backup strategy mentioned is the reverse: daily backups should be taken in 6 sets (one for each weekday), and monthly backups should be taken in 12 sets (one for each month of the year).

May/June 2022

44. As per the RBI circulars mentioned, which of the following is NOT an area the bank must have documented policies or processes for?
(A) IT Policy
(B) Data integrity and data security
(C) Business Continuity Plans and Disaster Recovery Plans
(D) Marketing and advertisement strategies

Ans :

(D) Marketing and advertisement strategies
The text lists several areas, based on RBI guidelines, where banks must have formal plans and policies. These are all related to IT, security, accounting, and operational risk, including IT policy, data security, BCP/DRP, and accounting manuals. Marketing and advertisement strategies, while important for the bank, are not part of this specific list of IT-related requirements.

May/June 2016

45. What is the primary reason for conducting periodical audits at the Branch and Data Centre?
(A) To check for consistency of data.
(B) To appraise employee performance.
(C) To plan for hardware upgrades.
(D) To set interest rates for new products.

Ans :

(A) To check for consistency of data.
The summary section of the chapter highlights that periodical audits at the Branch and Data

NODIA

May/June 2024

37. Which of the following pairs of CBS function and its description is correctly matched?
(A) CRM activities - Calculation of interest on advances and deposits.
(B) NPA Management - Generation of multi-currency Balance sheets.
(C) Inward/Outward clearing process - Handling of cheque clearing.
(D) Office account management - Loans disbursal and management.

Ans :

(C) Inward/Outward clearing process - Handling of cheque clearing.
The inward/outward clearing process function within CBS directly pertains to the management and processing of cheques received for collection from other banks and cheques issued by its own customers. The other options are mismatched; for instance, CRM relates to customer relationship management, not interest calculation, and NPA management deals with non-performing assets.

Oct/Nov 2008

38. Consider the following statements about transaction flow in CBS:
1. Transactions at branches follow maker-checker functionality.
2. Transactions through alternative delivery channels use single-factor authentication.
3. The system validates the account number and balance after a transaction hits the Central Data Base.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 3 only
Statement 1 is correct, as branch transactions use maker-checker. Statement 3 is also correct, as the central system validates details upon receiving a transaction. However, Statement 2 is incorrect. The text specifies that transactions through alternative delivery channels pass through multifactor authentication, not single-factor, to ensure a higher level of security.

May/June 2006

39. Which of the following is a chronological sequence of typical operations in a CBS environment?
(A) EOD by Data Centre → BOD by Data Centre → Transactions by Branches
(B) Transactions by Branches → BOD by Data Centre → EOD by Data Centre
(C) BOD by Data Centre → Transactions by Branches → EOD by Data Centre
(D) BOD by Data Centre → EOD by Data Centre → Transactions by Branches

Ans :

(C) BOD by Data Centre → Transactions by Branches → EOD by Data Centre
The logical daily cycle in a CBS starts with the Begin of Day (BOD) run by the Data Centre to open the system for a new day. This is followed by branches conducting transactions throughout the day. Finally, after the closure of branch operations, the End of Day (EOD) is run by the Data Centre.

Oct/Nov 2013

40. Assertion (A): The Operating System Password at a branch should be kept in a sealed cover.
Reason (R): This password is required for sensitive jobs and must be changed at once after the sealed cover is opened.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion (A) is a stated security practice for critical passwords. The reason (R) correctly explains why this practice is necessary: the password grants access to sensitive functions, and to maintain security, its exposure by opening the seal must trigger an immediate change. The reason directly justifies the stringent control mentioned in the assertion.

Oct/Nov 2012

41. Match the Master File type (List-I) with its corresponding content (List-II).
List-I
P. Master Data of Accounts

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Oct/Nov 2025

50. Based on the provided list, which item demonstrates the bank's preparedness for operational disruptions and its ability to recover critical functions?

(A) The established Business Continuity Plans and Disaster Recovery Plans
(B) The bank's comprehensive and board-approved IT Policy
(C) The detailed accounting manual for standard financial entries
(D) The documented process for handling customer complaints about errors

Ans :

(A) The established Business Continuity Plans and Disaster Recovery Plans
The provided list directly addresses the bank's readiness to handle major disruptions. Business Continuity Plans (BCP) outline how the bank will maintain essential functions during a crisis, while Disaster Recovery (DR) Plans specify the procedures to recover IT infrastructure and data after a catastrophic event. These plans are fundamental for ensuring operational resilience.

May/June 2012

51. A junior officer at a bank branch, acting as a 'Maker', inputs a high-value fund transfer. However, the transaction is not processed immediately. The system prompts for another user's action. Which operational principle of CBS is being enforced in this scenario?

(A) Logical Access Control
(B) The Four Eye Principle
(C) End of Day processing
(D) Password encryption

Ans :

(B) The Four Eye Principle
This scenario perfectly illustrates the Four Eye Principle, or Maker-Checker control. The junior officer is the 'Maker' who initiates the transaction. The system then requires a second, authorized user, the 'Checker', to review and approve the transaction before it is finalized. This dual control is a standard security measure, especially for high-value or sensitive transactions.

Oct/Nov 2014

52. A Branch Manager receives a circular from the Head Office announcing a change in the interest rate for savings accounts, effective from the next day. To implement this, the System Administrator must modify a specific file. What is this file called, and what must be done to document the change?

(A) The file is the Access Log; no formal documentation is needed for such changes
(B) The file is the Audit Trail; an email to the internal auditor is sufficient documentation
(C) The file is the Supplementary Report; a verbal confirmation to the manager is all that is required
(D) The file is the Parameter/Master File; printouts must be taken before and after the change

Ans :

(D) The file is the Parameter/Master File; printouts must be taken before and after the change
The interest rate for a product is a core rule stored in the Parameter/Master File. To implement the change, the System Administrator must alter this file. As per standard procedure, to ensure a proper audit trail and governance, printouts of the file showing its state before and after the modification must be taken and documented.

May/June 2019

53. An employee is scheduled to go on a 30-day vacation. The bank's CISO wants to ensure the employee's user ID cannot be misused during this period. Which password control measure is most appropriate in this situation?

(A) Forcing an immediate password change upon the employee's return.
(B) Reducing the user's access rights to read-only.
(C) Disabling the password or user account for the duration of the leave.
(D) Asking a colleague to monitor the user's account activity.

Ans :

(C) Disabling the password or user account for the duration of the leave.
The most secure and direct control measure in this case is to disable the employee's password or the entire user account for the period of absence. The text explicitly mentions that "Passwords are disabled during the employees' leave of absence." This completely prevents any possibility of the credentials being used, either maliciously or accidentally.

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Centre are important examples of operational controls in CBS. The primary purpose of these audits is to check for the consistency of data, ensuring that the information held within the system is accurate, reliable, and has not been compromised.

Oct/Nov 2009

46. Based on the provided list of CBS features, which function specifically addresses the management of overdue loan accounts and their classification as per regulatory norms?
(A) Customer accounts management
(B) Loans disbursal and management
(C) Generation of Reports, multi-currency Balance sheets, P&L statements
(D) Asset Classification and Income recognition, NPA Management

Ans :

(D) Asset Classification and Income recognition, NPA Management
The feature explicitly listed as "(j) Asset Classification and Income recognition, NPA Management" directly addresses the process of identifying, classifying, and managing non-performing assets (overdue loans) according to prudential norms. While loan management is a broader function, this specific feature focuses on the critical regulatory aspect of handling problematic loans within the system.

May/June 2023

47. According to the provided password control rules, which of the following passwords would be considered non-compliant?
(A) B@nk$erv1ce2023
(B) Qwerty@123
(C) MyPa$w0rd!
(D) Password

Ans :

(D) Password
Based on the provided source, a password like "Password" is non-compliant for two primary reasons. First, it is a dictionary word, which is explicitly to be avoided. Second, it lacks numbers and special characters, failing to meet the complexity requirements which mandate a mixture of different character types.

Oct/Nov 2018

48. Based on the excerpt about EOD activities, what is the primary purpose of maintaining a Backup Register and Log Books?
(A) To ensure proper documentation and create an audit trail of EOD tasks
(B) To automatically calculate and apply service charges for customer accounts
(C) To pre-authorize all high-value transactions scheduled for the next business day
(D) To communicate system downtime and maintenance schedules to all branches

Ans :

(A) To ensure proper documentation and create an audit trail of EOD tasks
The excerpt lists several EOD activities, many of which focus on documentation. Recording entries in the Backup Register and Log Books, along with using a checklist, serves to create a formal, verifiable record that all required end-of-day tasks, such as taking backups, have been completed correctly. This documentation is crucial for operational control and auditing.

May/June 2007

49. According to the security controls described, what does "joint custody" of backup media imply?
(A) The backup media is automatically duplicated and stored in two separate physical locations
(B) The backup media is encrypted using two different cryptographic keys for added security
(C) Two or more authorized individuals are required to access the backup media
(D) The bank and a designated third-party vendor share legal responsibility for the backups

Ans :

(C) Two or more authorized individuals are required to access the backup media
The principle of "joint custody" is a control measure requiring the involvement of at least two authorized persons to perform an action or access a critical asset. In this context, it means that the backup media is secured in such a way that no single individual can access it alone, thereby preventing unauthorized retrieval or tampering.

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performing a balance enquiry, or managing alerts. In contrast, cash deposits, fund transfers, and cheque processing are all financial transactions that directly impact account balances.

Oct/Nov 2022

58. Consider the following practices for password integrity:

1. All employees and users should maintain password secrecy.
2. Critical passwords for sensitive jobs should be known only to the Branch Manager or System Administrator.
3. The Operating System Password should be changed once on being opened.
4. Passwords can be shared among team members to ensure work continuity.

Which combination of practices is correct?

(A) 1 and 4 only
(B) 2, 3 and 4
(C) 1, 2 and 3
(D) 1, 3 and 4

Ans :

(C) 1, 2 and 3
The text outlines several practices to ensure password integrity. These include maintaining secrecy (1), restricting knowledge of critical passwords (2), and immediately changing the OS password if its sealed cover is opened (3). Statement (4) is incorrect as sharing passwords, even for work continuity, is a major security violation and is contrary to the principle of individual accountability.

May/June 2018

59. To maintain data integrity and safeguard computer systems, which of the following is a recommended logical access control measure?

(A) Granting all users administrator-level privileges for convenience.
(B) Allowing unrestricted access to workstations after normal working hours.
(C) Keeping the password file unencrypted for quick access by administrators.
(D) Restricting modem access and changing modem passwords periodically.

Ans :

(D) Restricting modem access and changing modem passwords periodically.
The text lists several logical access control measures, including restricting modem access and changing modem passwords periodically to prevent unauthorized remote entry into the network. The other options are incorrect practices. Granting excessive privileges, allowing unrestricted after-hours access, and keeping password files unencrypted are all serious security risks that should be avoided in a secure environment.

Oct/Nov 2016

60. What is the role of the backup register in the context of EOD operations?

(A) It is a record where entries are made to document that a backup has been taken
(B) It is a system-generated log of all transactions that failed during the EOD process
(C) It is a master list of all mandatory reports that were generated during the EOD run
(D) It is a formal register used to request the restoration of data from a specific backup set

Ans :

(A) It is a record where entries are made to document that a backup has been taken
As part of the End of Day (EOD) checklist, the text specifies the activity of "Recording of entries in the Backup Register." This register serves as a formal, manual log to document that the daily backup procedure has been successfully completed. It acts as an important piece of evidence for operational control and for auditors to verify compliance.

NODIA

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Oct/Nov 2006

54. On a busy Friday evening, the Data Centre team faces technical issues and fails to complete the End of Day (EOD) process for that day. What will be the direct operational impact on the bank's branches on the following Monday morning?

(A) Branches will operate normally but will be restricted from processing any cash-based transactions

(B) All transactions will be processed in a temporary offline mode and synchronized later in the day

(C) The system will automatically skip Friday's EOD process and attempt to start Monday's BOD

(D) The Begin of Day (BOD) process cannot be run, and branches will be unable to start a new transaction day

Ans :

(D) The Begin of Day (BOD) process cannot be run, and branches will be unable to start a new transaction day

The BOD and EOD processes are sequential and dependent. The text clearly states, "If the EOD is not completed for a day BOD an not be done." Therefore, the failure to complete Friday's EOD means the system cannot initiate the BOD process for the next business day (Monday), preventing branches from beginning their operations.

May/June 2021

55. A system audit reveals that a clerk in the loans department has the system rights to not only enter new loan applications but also approve them and modify the applicable interest rates in the master files. This situation is a violation of which two key control principles?

(A) Segregation of Duties and controls over Parameter/Master File modification

(B) The principles of Password Secrecy and end-to-end Data Encryption

(C) The official Backup Policy and the bank's Disaster Recovery Planning

(D) Data Centre physical security and the corporate Anti-virus management policy

Ans :

(A) Segregation of Duties and controls over Parameter/Master File modification

This scenario highlights two major control violations. Firstly, allowing one person to both enter (make) and approve (check) a loan violates the Segregation of Duties and the Four Eye Principle. Secondly, giving a clerk access to modify interest rates in the Parameter/Master File violates the control that such critical files should be restricted and changes tightly governed.

Oct/Nov 2010

56. Identify the correct statement regarding the accounting of transactions in a CBS.

(A) Transactions are first recorded in customer ledgers and then posted to the general ledger in a batch process at night.

(B) CBS functions as an Online Transaction Processing System, updating all ledgers and sub-systems simultaneously.

(C) Only cash transactions are processed in real-time, while transfer transactions are processed at EOD.

(D) The accounting entries are manually prepared and then entered into the CBS by a dedicated team.

Ans :

(B) CBS functions as an Online Transaction Processing System, updating all ledgers and sub-systems simultaneously.

Core banking solutions are Online Transaction Processing (OLTP) systems. This means that when a transaction is processed, the system effects the necessary debits and credits simultaneously across all relevant books of accounts, including customer account ledgers and the general ledger. This ensures a real-time, consistent view of the bank's financial records at all times.

May/June 2005

57. Which of the following describes a non-financial transaction that occurs in a CBS?

(A) A cash deposit into a savings account.

(B) A fund transfer from a current account to a loan account.

(C) A balance enquiry or updating account parameters.

(D) The processing of an inward clearing cheque.

Ans :

(C) A balance enquiry or updating account parameters.

A non-financial transaction is an activity that does not involve the movement of funds or a change in the account balance. The text provides examples such as updating account parameters,

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Oct/Nov 2018

4. Which of the following is NOT a convenience of ATMs for customers?

(A) 24 × 7 access availability for routine banking needs.

(B) Enhanced privacy during transactions compared to over-the-counter services.

(C) Less time required for transactions due to shorter queues and automation.

(D) Cross-selling of the bank's third-party insurance and investment products.

Ans :

(D) Cross-selling of the bank's third-party insurance and investment products.

While ATMs serve as a touchpoint for cross-selling, this is a benefit for the bank, not a direct convenience for the customer. Customer conveniences include 24 × 7 availability, reduced transaction time compared to branch queues, privacy, and the ability to perform transactions like balance enquiries, cash withdrawals, and utility bill payments anytime and anywhere.

May/June 2007

5. From a bank's perspective, what is a key advantage of deploying ATMs?

(A) It increases the footfall of customers inside the branch for routine transactions, thus increasing staff workload.

(B) The cost of setting up and maintaining an ATM is significantly higher than the cost of setting up a new full-service branch.

(C) It relieves bank staff from routine transactions, allowing them to focus on more productive work.

(D) It completely eliminates the need for any physical cash handling by the bank or its appointed agents.

Ans :

(C) It relieves bank staff from routine transactions, allowing them to focus on more productive work.

ATMs offer significant advantages to banks by automating routine transactions like cash withdrawals and balance enquiries. This automation frees up branch staff from these repetitive tasks, enabling them to dedicate their time and effort to more value-added activities such as customer advisory, sales of complex financial products, and relationship management, thereby increasing overall productivity.

Oct/Nov 2025

6. Consider the following statements about ATM models:

1. An 'Online' ATM is connected to the bank's database and provides real-time access to customer accounts.
2. An 'Offline' ATM permits withdrawals up to a pre-fixed limit, regardless of the actual account balance.
3. A 'Networked' ATM allows a cardholder to use their card at any ATM belonging to the same network.

How many of the above statements are correct?

(A) Only one

(B) Only two

(C) All three

(D) None

Ans :

(C) All three

All three statements accurately describe the different ATM operating models. An 'Online' ATM is directly linked to the bank's core system. An 'Offline' ATM operates with a pre-set limit for withdrawals when disconnected. A 'Networked' ATM is part of a shared network, like the National Financial Switch, allowing for interoperable transactions across different banks' ATMs.

May/June 2012

7. The responsibility for operating the National Financial Switch (NFS) was transferred from IDRBT to which organization on December 14, 2009?

(A) Indian Banks' Association (IBA)

(B) Reserve Bank of India (RBI)

(C) Ministry of Finance, Government of India

(D) National Payments Corporation of India (NPCI)

Ans :

(D) National Payments Corporation of India (NPCI)

The National Financial Switch (NFS) is the largest network of shared ATMs in India. To facilitate interoperability at a national level, it was initially set up by the Institute for Development and Research in Banking Technology (IDRBT). The operations of the NFS were subsequently taken over by the National Payments Corporation of India (NPCI) on December 14, 2009.

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(A) Taking an imprint of the card on a charge slip.

The 'manual mode' of card acceptance is a non-electronic process. In this mode, after checking the card against a warning bulletin for authenticity, the merchant uses a mechanical imprinter (often called a "zip-zap" machine) to take a physical imprint of the embossed details of the card onto a multi-part paper charge slip for record-keeping and processing.

May/June 2008

35. Match the biometric security feature in List-I with its corresponding description in List-II.

List-I (Biometric Feature)

P. Dynamic signature verification
Q. Hand geometry
R. Vein recognition
S. Retinal pattern verification

List-II (Description)

1. Scans the pattern of blood vessels on the back of the eye.
2. Uses infrared scanning to locate subcutaneous vessels.
3. Traces the way in which a signature is written, not just the final image.
4. Measures unique features like finger lengths and skin web opacity.

Code:

(A) P-3, Q-4, R-2, S-1
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-1, S-2

Ans :

(A) P-3, Q-4, R-2, S-1

Dynamic signature verification analyzes the process of writing a signature. Hand geometry measures the unique physical characteristics of a hand. Vein recognition uses infrared light to map the unique pattern of veins. Retinal pattern verification scans the unique arrangement of blood vessels at the back of the human eye for identification purposes.

Oct/Nov 2013

36. What is the fundamental requirement for a non-bank entity to launch a mobile wallet in India?

(A) It must have a formal partnership with at least one major telecommunication company.
(B) It must have a physical branch or service center in every state of its operation.
(C) It must be a publicly listed company on a recognized Indian stock exchange.
(D) It must obtain a Prepaid Payment Instrument (PPI) license from the Reserve Bank of India.

Ans :

(D) It must obtain a Prepaid Payment Instrument (PPI) license from the Reserve Bank of India.

Mobile wallets, which store value and facilitate payments, are classified as a type of Prepaid Payment Instrument (PPI). For any non-bank entity to operate such a payment system in India, it is mandatory to seek authorization from the Reserve Bank of India. This authorization is granted in the form of a PPI license, as per regulatory guidelines.

NODIA

May/June 2015

37. Consider the following statements regarding mobile wallets:

Statement I: A key demerit of mobile wallets is the need for a smartphone with a reliable and fast internet connection.

Statement II: A key merit of mobile wallets is that they allow users to pay in one tap, which is often faster than net banking.

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct, but Statement II is incorrect.
(D) Statement I is incorrect, but Statement II is correct.

Ans :

(A) Both Statement I and Statement II are correct.

Both statements accurately reflect the characteristics of mobile wallets. A significant limitation is their dependence on enabling technology, specifically a smartphone and a stable internet connection, which can be a barrier for some users. Conversely, a major advantage is their convenience and speed, often allowing for quick, single-tap payments for a seamless user experience.

Oct/Nov 2012

38. A popular bookstore chain issues its own branded card which customers can load with money. This card can only be used to purchase books and other items from this specific bookstore chain's outlets and does not permit cash withdrawal.

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May/June 2005

13. Under which legislative act did the Reserve Bank of India issue guidelines in June 2012 for the introduction of White Label ATMs (WLAs)?
(A) Banking Regulation Act, 1949
(B) Reserve Bank of India Act, 1934
(C) Payment & Settlement Systems Act, 2007
(D) Negotiable Instruments Act, 1881

Ans :

(C) Payment & Settlement Systems Act, 2007
The framework for regulating various payment systems in India, including the operation of ATMs by non-bank entities, is provided by the Payment & Settlement Systems Act, 2007. Under the authority of this act, the Reserve Bank of India released its first set of guidelines in June 2012 to introduce and govern White Label ATMs.

Oct/Nov 2022

14. Which statement correctly describes the role of a White Label ATM (WLA) Operator?
(A) The WLA Operator acts as the "issuer" for all transactions and is not entitled to any fee.
(B) The WLA Operator is permitted to accept cash deposits into its own account at the WLA site.
(C) The WLA Operator can charge customers a direct fee for using the ATM resources.
(D) The WLA Operator acts as the "acquirer" for all transactions and earns a fee accordingly.

Ans :

(D) The WLA Operator acts as the "acquirer" for all transactions and earns a fee accordingly.
As per RBI guidelines, the non-bank entity operating the White Label ATM functions as the "acquirer" for all transactions conducted at that ATM. In this role, the operator is responsible for processing the transaction and is compensated for this service by earning the "interchange" fee from the card-issuing bank, similar to the bank-owned ATM scenario.

May/June 2018

15. In a 'Brown Label' ATM model, what is the primary responsibility of the sponsor bank?
(A) Cash management and connectivity to the banking network.
(B) Owning the ATM hardware and taking responsibility for leasing the ATM site.
(C) Performing all periodic and breakdown maintenance of the ATM hardware.
(D) Identifying and contracting the service provider who owns the hardware.

Ans :

(A) Cash management and connectivity to the banking network.
In the Brown Label ATM model, a service provider owns the ATM hardware and is responsible for its maintenance. The sponsor bank, whose brand is displayed on the ATM, takes on the crucial responsibilities of managing the cash within the machine (cash management) and ensuring the ATM is connected to the relevant banking and payment networks.

Oct/Nov 2016

16. What was the deadline set by the Reserve Bank in its August 2015 instruction for banks to replace all magnetic stripe cards with EMV Chip and PIN-based cards?
(A) End of December 2016
(B) End of December 2018
(C) End of August 2015
(D) End of May 2016

Ans :

(B) End of December 2018
To enhance the safety and security of card transactions and mitigate fraud, the Reserve Bank of India took a significant step by instructing banks to upgrade their card infrastructure. In August 2015, the RBI mandated that all existing magnetic stripe cards be replaced with the more secure Europay, Mastercard and Visa (EMV) Chip and PIN-based cards by the end of December 2018.

May/June 2014

17. Which of the following is a key feature of a Cash Recycler machine?
(A) It only accepts cash deposits from customers but cannot dispense cash for withdrawals.
(B) It can accept cash deposits from customers and reuse the same verified cash for withdrawals.
(C) It requires a bank official's physical intervention and authorization for every transaction.
(D) It exclusively processes cardless transactions and does not accept physical debit or credit cards.

Ans :

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measure to prevent fraudulent activities like card data theft at ATMs.

Oct/Nov 2005

26. What is the primary purpose of the 'Green PIN' facility offered by banks?

(A) To allow customers to generate their Debit Card PIN instantly through digital channels like ATM or SMS.

(B) To issue a physical PIN mailer made from recycled paper to support green initiatives.

(C) To provide a temporary, single-use PIN that is valid for only one specific transaction.

(D) To create a universal PIN that can be used for all debit and credit cards owned by the customer.

Ans :

(A) To allow customers to generate their Debit Card PIN instantly through digital channels like ATM or SMS.

The Green PIN initiative is a move towards paperless banking that offers customers greater convenience. It is an instant PIN generation facility that allows a debit card holder to set or change their PIN through various electronic channels like ATMs, Internet Banking, IVR, or SMS, using a One Time Password (OTP) for authentication, eliminating physical PIN mailers.

May/June 2020

27. What is the key difference between a credit card and a charge card?

(A) A charge card allows for revolving credit with interest, while a credit card requires full payment every month.

(B) Charge cards do not have an annual fee or interest charges, whereas credit cards always have a high annual fee.

(C) Credit cards can be used for international cash withdrawals, but charge cards are restricted to domestic use only.

(D) A credit card allows the holder to pay a percentage of the debt and defer the rest, while a charge card requires the balance to be paid in full each month.

Ans :

(D) A credit card allows the holder to pay a percentage of the debt and defer the rest, while a charge card requires the balance to be paid in full each month.

The fundamental difference lies in the payment terms. A credit card offers a revolving line of credit, allowing the cardholder to pay the full amount, a minimum amount, or any amount in between, with interest charged on the unpaid balance. In contrast, a charge card requires the cardholder to pay the entire outstanding balance in full upon receipt of the statement.

Oct/Nov 2015

28. How does a debit card transaction affect the cardholder's account?

(A) Funds are debited after a 30-day credit period.

(B) Funds are immediately debited from the cardholder's linked bank account.

(C) The transaction amount is converted into a loan with monthly installments.

(D) Funds are held in a temporary wallet and debited at the end of the day.

Ans :

(B) Funds are immediately debited from the cardholder's linked bank account.

A debit card provides direct access to the funds available in the cardholder's bank account. Unlike a credit card, where the bank extends credit, a debit card transaction results in the purchase amount being debited from the user's account in real-time or near real-time. The payment is instant, directly using the cardholder's own money.

May/June 2013

29. Which international standard defines the physical features, communication protocols, and security features for smart cards?

(A) ISO 9001 and ISO 14001

(B) ISO 27001 and ISO 22301

(C) ISO 7816 and ISO 10202

(D) ISO 8583 and ISO 20022

Ans :

(C) ISO 7816 and ISO 10202

The interoperability and security of smart cards are governed by specific international standards. ISO 7816 is the standard that defines the physical characteristics, dimensions, contact positions, and communication protocols for these cards. For security, ISO 10202 is the relevant standard that defines the security features, ensuring safe electronic funds transfer transactions.

NODIA

(A) The entire deposit of ₹55,000 will be accepted and credited instantly.
(B) The machine will reject the transaction as the amount exceeds the permissible limit for non-PAN registered accounts.
(C) The machine will accept the deposit, but the credit will be posted after manual verification by the branch.
(D) The machine will accept only ₹49,950 and return the remaining ₹5,050 to the customer.

Ans :

(B) The machine will reject the transaction as the amount exceeds the permissible limit for non-PAN registered accounts.
According to RBI guidelines for transactions through Cash Deposit Machines, there is a specific limit for deposits made without the depositor's PAN being registered with the bank. This limit is set at ₹49,950 per account per day. Since the attempted deposit of ₹55,000 exceeds this threshold, the transaction would be declined by the machine.

May/June 2010

23. What was the primary advantage of Bulk Note Acceptors (BNAs) over the initial envelope-based cash deposit systems in ATMs?
(A) BNAs allowed for depositing cheques and demand drafts in the same slot as cash.
(B) BNAs offered a preferential higher interest rate on the amount deposited through the machine.
(C) BNAs required customers to first segregate notes by their specific denomination before depositing.
(D) BNAs provided instant counting, verification, and credit to the customer's account.

Ans :

(D) BNAs provided instant counting, verification, and credit to the customer's account.
The early envelope deposit system created uncertainty for customers as the cash was credited later after manual verification. The invention of Bulk Note Acceptors (BNAs) revolutionized this process. BNAs can accept bulk deposits, sort, count, and verify the notes in real-time, and provide an immediate credit to the depositor's account, enhancing security and customer confidence.

Oct/Nov 2024

24. As per RBI's subsidy scheme to encourage the deployment of Bulk Note Acceptors (BNAs), what was the subsidy percentage offered for deployment in semi-urban areas?
(A) 75%
(B) 25%
(C) 50%
(D) 100%

Ans :

(A) 75%
Recognizing the critical impact of Bulk Note Acceptors (BNAs) on improving currency circulation and customer service, the Reserve Bank of India introduced a scheme to subsidize their deployment. To encourage wider adoption, the RBI subsidized the cost of BNAs up to 50% in urban areas and a higher rate of 75% in semi-urban areas.

May/June 2017

25. Read the following excerpt on ATM security: "RBI also mandated the regulated entities to implement the following control measures for securing the ATMs.
(a) Implementing security measures such as BIOS password, disabling USB ports, disabling auto-run facility...
(b) Implementing the anti-skimming and whitelisting solution.
(c) Upgrading all the ATMs with supported versions of the operating system."
Based on the excerpt, which of the following is a mandated control measure for securing ATMs?
(A) Enabling USB ports for faster diagnostics.
(B) Using outdated but stable versions of the operating system.
(C) Implementing an anti-skimming solution.
(D) Removing the BIOS password for easier access by technicians.

Ans :

(C) Implementing an anti-skimming solution.
The provided text explicitly lists several control measures mandated by the RBI to secure ATMs. Among these measures are implementing BIOS passwords, disabling USB ports, and disabling the auto-run facility. It specifically mentions "Implementing the anti-skimming and whitelisting solution" as a required security

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loaded with additional funds, distinguishing them from other reloadable PPIs.

May/June 2016

43. PPIs for Mass Transit Systems (PPI-MTS) can be used for payments at which locations?
(A) At any merchant outlet across the country that accepts digital payments.
(B) Only for payment of transit fares on the specific, designated mass transit system.
(C) Only for online e-commerce transactions on specific government-approved websites.
(D) Only at merchant outlets allied to or within the premises of the mass transit system.

Ans :

(D) Only at merchant outlets allied to or within the premises of the mass transit system.
PPIs for Mass Transit Systems (PPI-MTS) are designed with a specific utility in mind. Apart from their primary function of containing an Automated Fare Collection application for transit services, their usage for other payments is restricted. These instruments can only be used at merchant outlets whose activities are allied, related to, or carried on within the premises of the mass transit system.

Oct/Nov 2009

44. What is the overall limit for cash loading into a PPI per month, subject to the overall limit of the specific PPI category?
(A) ₹10,000
(B) ₹50,000
(C) ₹25,000
(D) ₹1,00,000

Ans :

(B) ₹50,000
The key operational regulations for Prepaid Payment Instruments (PPIs) specify how they can be funded. While loading can be done through various means like bank accounts and cards, there is a specific cap for cash loading. The total amount of cash loaded into a PPI during a single month is limited to ₹50,000, subject to the overall limits of the PPI.

May/June 2023

45. What is the minimum validity period for a PPI from the date of its last loading or reloading?
(A) Six months
(B) Two years
(C) One year
(D) Three years

Ans :

(C) One year
To protect consumer interests, regulations mandate a minimum validity period for Prepaid Payment Instruments (PPIs). From the date of its loading or the most recent reloading, a PPI must have a minimum validity period of one year. Issuers are also required to inform customers through SMS or email before the PPI is due to expire.

Oct/Nov 2018

46. For non-bank PPI issuers, where must the outstanding balances collected from customers be maintained?
(A) In a current account with any nationalized or cooperative bank.
(B) In a mix of government securities, treasury bills, and corporate bonds.
(C) In a fixed deposit account held in the name of the issuer's Chief Executive Officer.
(D) In an escrow account with one or two scheduled commercial banks.

Ans :

(D) In an escrow account with one or two scheduled commercial banks.
To safeguard the funds collected from PPI holders, regulations require non-bank issuers to follow a specific fund management process. The outstanding balances must be held in an escrow account, which is maintained with a scheduled commercial bank. The day-end balance in this escrow account must always be at least equal to the value of outstanding PPIs.

NODIA

May/June 2007

47. An individual holding a Full-KYC PPI issued by an AD-I bank wishes to purchase an item from an international website. The cost is ₹12,000. Based on the rules for cross-border outward transactions, will this transaction be permitted?
(A) No, because the per-transaction ceiling is ₹10,000.
(B) Yes, because the monthly limit is ₹50,000.
(C) Yes, because there are no limits on cross-border transactions for Full-KYC PPIs.
(D) No, because cross-border outward transactions are completely banned for all PPIs.

Oct/Nov 2021

30. What does the acronym EMV stand for in the context of chip-based payment cards?
(A) Electronic Money Verification
(B) Encrypted Magnetic Verification
(C) Enhanced Mobile Version
(D) Europay, MasterCard and Visa

Ans :

(D) Europay, MasterCard and Visa
EMV is a global standard for the inter-operation of integrated circuit cards (chip cards) and compatible point of sale terminals and ATMs for authenticating credit and debit card transactions. The acronym EMV represents the names of the three companies that originally created the standard: Europay, MasterCard, and Visa, to ensure security and global interoperability.

May/June 2024

31. Near Field Communication (NFC) technology, used in contactless cards, supports electronic data exchanges over what approximate maximum distance?
(A) 10 centimeters
(B) 10 meters
(C) 1 meter
(D) 10 millimeters

Ans :

(A) 10 centimeters
Near Field Communication (NFC) is a short-range wireless technology that is central to contactless payments. It is designed to facilitate secure electronic data exchange between devices, such as an NFC-enabled card and a POS terminal, when they are brought very close to each other. The typical effective range for these transactions is about 10 centimeters.

Oct/Nov 2008

32. A 'Member Card', such as the Taj Card, is characterized by its:
(A) Universal acceptance at all merchant establishments worldwide, including online portals.
(B) Exclusive usability within a specific group, chain of hotels, or retail establishment.
(C) Functionality as both a credit card and a debit card simultaneously, chosen by the user.
(D) Issuance by a bank in direct partnership with a central government agency for specific schemes.

Ans :

(B) Exclusive usability within a specific group, chain of hotels, or retail establishment.
A Member Card is a type of card issued by a non-banking entity, such as a club or a chain of hotels, for use exclusively by its members or patrons. Its usage is restricted to the outlets of the issuing group or establishment. The Taj Card, used within the Taj Group of Hotels, is a prime example of such a card.

May/June 2006

33. Identify the statement that is NOT an advantage of accepting credit cards for a merchant.
(A) Increase in sales due to the cardholder's enhanced purchasing power and impulse buying.
(B) It inculcates a sense of financial discipline and savings habits in the merchant.
(C) Assured and immediate settlement of payments directly into the merchant's bank account.
(D) Avoids costs and security risks associated with handling large amounts of physical cash.

Ans :

(B) It inculcates a sense of financial discipline and savings habits in the merchant.
Inculcating a sense of financial discipline is listed as a potential advantage for the cardholder, not the merchant. For merchants, the benefits of accepting credit cards include potentially higher sales, guaranteed payments from the bank, systematic accounting through banking channels, and the reduction of risks and costs associated with managing physical cash.

Oct/Nov 2017

34. In the 'manual mode' of card acceptance, what is the primary method a merchant uses to process a transaction after verifying the card's genuineness?
(A) Taking an imprint of the card on a charge slip.
(B) Swiping the card through an Electronic Data Capture (EDC) machine.
(C) Scanning a QR code generated by the card.
(D) Entering the card details into a web-based payment gateway.

Ans :

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(B) It can accept cash deposits from customers and reuse the same verified cash for withdrawals. A Cash Recycler is an advanced self-service terminal that combines the functions of a cash dispenser and a cash deposit machine. Its defining feature is the ability to accept cash deposits from customers, verify the notes, and then use those same deposited notes to fulfill cash withdrawal requests from other customers, thereby optimizing cash management.

Oct/Nov 2007

18. What is the maximum limit for a single cardless transaction on a Cash Recycler machine?
(A) ₹20,000 per day
(B) ₹10,000 per day
(C) ₹49,950 per day
(D) ₹5,000 per day

Ans :

(A) ₹20,000 per day
Cash Recycler machines are equipped with advanced features, including the ability to perform certain transactions without a physical card. For such cardless transactions, there is a specified limit to manage risk and ensure security. The maximum amount that can be transacted in a single day through the cardless facility on these machines is ₹20,000.

May/June 2025

19. How do Cash Recyclers primarily contribute to the RBI's 'clean note policy'?
(A) By only dispensing newly printed banknotes directly received from the RBI.
(B) By replacing all paper currency transactions with purely digital currency transfers.
(C) By sorting out damaged, soiled, and counterfeit notes from the deposited cash.
(D) By using a special process to wash and clean the banknotes before re-dispensing them.

Ans :

(C) By sorting out damaged, soiled, and counterfeit notes from the deposited cash.
A significant impact of deploying Cash Recyclers is their advanced capability to authenticate and sort currency. These machines can identify and segregate damaged, soiled, and suspected counterfeit notes during the deposit process. By removing these unfit notes from the cash that gets re-dispensed, they improve the overall quality of currency in circulation, supporting the RBI's clean note policy.

Oct/Nov 2019

20. Which of the following services is typically offered through Kiosk Banking but is generally not available at a standard ATM?
(A) Cash Withdrawal
(B) Balance Enquiry
(C) Mini Statement Printing
(D) Opening of a no-frill account

Ans :

(D) Opening of a no-frill account
While both ATMs and Kiosks offer services like cash withdrawal and balance enquiry, Kiosk Banking is designed to provide a broader range of functionalities. A key distinguishing service offered by many kiosks, especially those aimed at financial inclusion, is the facility to open new accounts, such as a no-frill account, a process not available on traditional ATMs.

May/June 2009

21. What is the primary purpose of a Pass Book Printing Kiosk (PBK)?
(A) To issue new passbooks to customers upon account opening.
(B) To accept cash deposits and print the corresponding receipt in the passbook.
(C) To allow customers to independently print their transaction details in their passbook.
(D) To update the customer's mobile number and other KYC details linked to the account.

Ans :

(C) To allow customers to independently print their transaction details in their passbook.
A Pass Book Printing Kiosk (PBK) is an automated, self-service machine designed for a specific purpose. It enables customers to update their passbooks on their own, without assistance from bank staff. The machine reads the customer's account details, often from a magnetic stripe on the passbook, fetches the latest transactions, and prints them accordingly.

Oct/Nov 2011

22. A small business owner, whose PAN is not registered with the bank, attempts to deposit ₹55,000 in cash into his account using a Cash Deposit Machine (CDM). What will be the outcome?

NODIA

How would this instrument be classified under RBI's PPI framework?
(A) Full-KYC PPI
(B) Closed System PPI
(C) Small PPI
(D) PPI for Mass Transit Systems

Ans :

(B) Closed System PPI
This instrument fits the definition of a Closed System Prepaid Payment Instrument. These are issued by an entity for facilitating the purchase of goods and services from that entity only. Crucially, they cannot be used for payments to third parties or for cash withdrawal. Since the card is restricted to the bookstore's own outlets, it operates in a closed loop.

May/June 2011

39. Based on the information provided for "Small PPIs (Minimum-detail PPIs) with cash loading facility", which statement is correct?
"Maximum loaded amount: ₹10,000 in a month, and ₹1,20,000 in a FY. Maximum outstanding: ₹10,000. These PPIs must be converted to fully KYC-compliant PPIs within 24 months of the date of issue."
(A) The maximum amount that can be outstanding in the PPI at any time is ₹1,20,000.
(B) The PPI can be used indefinitely without KYC upgradation.
(C) The monthly loading limit is ₹24,000.
(D) The total amount loaded during a financial year cannot exceed ₹1,20,000.

Ans :

(D) The total amount loaded during a financial year cannot exceed ₹1,20,000.
The provided text specifies clear limits for this type of PPI. It states that the maximum amount loaded in a month is ₹10,000, and the total loaded during a financial year is capped at ₹1,20,000. The maximum outstanding balance at any point is ₹10,000, and conversion to a full-KYC PPI is mandatory within 24 months.

Oct/Nov 2020

40. For a Full-KYC PPI, what is the maximum amount that can be outstanding at any point in time?
(A) ₹2,00,000
(B) ₹10,000
(C) ₹50,000
(D) ₹1,00,000

Ans :

(A) ₹2,00,000
Full-KYC Prepaid Payment Instruments offer significantly higher limits compared to minimum-detail PPIs due to the enhanced customer due diligence performed by the issuer. As per the regulations, the maximum value that can be held in a Full-KYC PPI, meaning the amount outstanding at any point in time, shall not exceed ₹2,00,000.

May/June 2022

41. What is the maximum cash withdrawal permitted per month from a bank-issued Full-KYC PPI across all channels like ATMs and PoS devices?
(A) ₹2,000
(B) ₹25,000
(C) ₹10,000
(D) ₹50,000

Ans :

(C) ₹10,000
For Full-KYC PPIs that are issued by banks, cash withdrawal is a permitted feature. However, this facility is subject to specific limits to manage risks. The regulation stipulates a maximum limit of ₹2,000 per transaction, with an overall monthly limit for cash withdrawal of ₹10,000 per PPI across all available channels, including agents, ATMs, and PoS devices.

Oct/Nov 2023

42. Which of the following statements about Gift PPIs is incorrect?
(A) Gift PPIs are reloadable instruments.
(B) The maximum value of a single Gift PPI cannot exceed ₹10,000.
(C) Cash-out or funds transfer from a Gift PPI is not permitted.
(D) The funds can be transferred 'back to the source account' with the holder's consent.

Ans :

(A) Gift PPIs are reloadable instruments.
Gift PPIs are a specific category of prepaid instruments designed for one-time use. A key characteristic of these instruments is that they shall not be reloadable. They are issued with a pre-loaded amount, up to a maximum of ₹10,000, and once the value is exhausted, they cannot be

NODIA

Oct/Nov 2014

8. What is the defining characteristic of a Cash Dispenser (CD) as compared to a standard ATM?
(A) It is a pruned-down version of an ATM that lacks a depository for cash or cheques.
(B) It is a full-featured ATM that also allows for cheque deposits and passbook printing.
(C) It is designed exclusively for depositing large volumes of cash and cannot dispense it.
(D) It can only be used with specific credit cards and not with standard debit cards.

Ans :

(A) It is a pruned-down version of an ATM that lacks a depository for cash or cheques.
A Cash Dispenser (CD) is a simplified or "pruned-down" version of a standard Automated Teller Machine. Its primary and often sole function is to dispense cash. Unlike a full-fledged ATM, a CD is not equipped with a depository unit, meaning it cannot be used by customers to deposit cash or cheques into their accounts.

May/June 2019

9. What was the name of the first shared payment network system for ATMs set up by the Indian Banks' Association (IBA) in Mumbai, which went live on February 1, 1997?
(A) NFS
(B) IMPS
(C) SWADHAN
(D) RuPay

Ans :

(C) SWADHAN
The Indian Banks' Association (IBA) was the pioneering organization to establish a shared payment network system (SPNS) for the ATMs of its member banks in Mumbai. This network was named SWADHAN, and it became operational on February 1, 1997, marking an early step towards ATM interoperability in India by enabling 24×7 electronic banking services.

Oct/Nov 2006

10. Which of the following is NOT a service typically provided by modern ATMs?
(A) Approval of a personal loan application
(B) Insurance Premium Payment
(C) Aadhaar Updation
(D) Opening of a term deposit

Ans :

(A) Approval of a personal loan application
Modern ATMs offer a wide array of services beyond just cash withdrawal. These include balance enquiries, PIN changes, funds transfers, utility bill payments, insurance premium payments, mobile recharges, and even Aadhaar updation and opening of term deposits. However, the end-to-end processing and approval of a personal loan application is a credit decision-making process not handled by ATMs.

May/June 2021

11. Which of the following is NOT a standard component of an ATM's customer interface?
(A) Card Reader
(B) Cash Dispenser
(C) Envelope Dispenser
(D) Biometric Scanner

Ans :

(D) Biometric Scanner
The standard customer interface components of an ATM include the Video Display Monitor, Keyboard/Keypad, Touch Screen, and various slots like the Card Reader, Cash Dispenser, Deposit Slot, and Envelope Dispenser. While some modern ATMs may incorporate biometric scanners for enhanced security, it is not listed as a standard, universal component of the basic customer interface.

Oct/Nov 2010

12. ATMs that are set up, owned, and operated by non-bank entities are known as:
(A) Brown Label ATMs
(B) White Label ATMs
(C) On-site ATMs
(D) Green Label ATMs

Ans :

(B) White Label ATMs
White Label ATMs (WLAs) are a specific category of ATMs established under guidelines from the Reserve Bank of India. These machines are distinct because they are set up, owned, and operated by non-bank entities. They do not display the branding of any particular bank and are intended to serve customers of all banks, thereby increasing ATM penetration.

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Ans :

(A) No, because the per-transaction ceiling is ₹10,000.
While Full-KYC PPIs issued by AD-I banks can be used for permissible cross-border outward transactions, they are subject to strict limits. The regulations specify a ceiling of ₹10,000 per transaction and a total monthly limit of ₹50,000. Since the attempted purchase of ₹12,000 exceeds the per-transaction limit, it would not be permitted.

Oct/Nov 2025

48. Which of the following is a service that corporate customers can typically avail through a remote banking facility?
(A) Physical cash counting, sorting, and bundling for payroll purposes.
(B) Opening letters of credit and managing complex treasury requirements.
(C) Dispensing salaries in physical cash to employees at the corporate office.
(D) Auditing the bank's internal financial statements and compliance reports.

Ans :

(B) Opening letters of credit and managing complex treasury requirements.
Remote banking for corporate customers provides a wide range of sophisticated services that go beyond basic account viewing. These facilities enable businesses to perform complex transactions from their own offices, such as instructing the opening of letters of credit, managing working capital through treasury services, and executing customized loan and lease agreements for equipment purchases.

May/June 2012

49. In the context of internet banking, which level of service allows customers to operate their accounts for fund transfers, bill payments, and purchase of securities?
(A) Basic Level Service
(B) Fully Transactional Websites
(C) Simple Transactional Websites
(D) Information-Only Websites

Ans :

(B) Fully Transactional Websites
Internet banking services are categorized into different levels based on their capabilities. The most advanced level is the Fully Transactional Website. This allows customers not just to view information or submit instructions, but to fully operate their accounts, including executing fund transfers, paying utility bills, subscribing to bank products, and transacting in securities.

Oct/Nov 2014

50. Assertion (A): Internet banking poses a strategic risk of loss of business to banks that do not adopt it.
Reason (R): Internet banking is a technology-efficient and cost-effective delivery mechanism for banking services.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

NODIA

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that non-adopting banks face a strategic risk is true. The reason provided, that internet banking is a highly efficient and cost-effective channel, correctly explains why this risk exists. Banks that fail to offer these modern, convenient, and cheaper services risk losing customers to competitors who have embraced this new delivery mechanism.

May/June 2019

51. What is the maximum amount for a 'cash out' transaction through mobile banking, where funds are delivered in cash to a recipient?
(A) ₹5,000 per transaction
(B) ₹20,000 per transaction
(C) ₹10,000 per transaction
(D) ₹25,000 per transaction

Ans :

(C) ₹10,000 per transaction
Mobile banking services include the facility to transfer funds for cash delivery to recipients, who may even be non-account holders. To manage the associated risks, specific limits are in place for this 'cash out' service. The maximum amount that can be disbursed in a single transaction of this nature is capped at ₹10,000.

(C) It acts as a transmitter and receiving antenna on the satellite
(D) It converts digital signals to analogue signals on the satellite

Ans :

(C) It acts as a transmitter and receiving antenna on the satellite
Communication satellites are made stationary relative to the Earth by matching their orbital speed with the Earth's rotation. These satellites are fitted with specialized equipment to facilitate communication. This equipment includes transmitters and receiving antennas, which are collectively known as transponders. Transponders link two or more microwave transmitters/receivers on Earth, known as earth stations.

May/June 2017

14. What is the fundamental purpose of communication processors like message switches, multiplexers, and front-end processors?
(A) To store long-term archival data for regulatory compliance
(B) To provide the physical medium, such as cables or satellites, for data travel
(C) To convert analogue signals back into digital format at the receiving end
(D) To enhance data communication between two points by improving signal quality and managing traffic

Ans :

(D) To enhance data communication between two points by improving signal quality and managing traffic
Data transmission can be affected by noise and distortion, and communication distance is limited. The purpose of communication processors is to enhance the data communication between two points. They can strengthen signals, manage data flow from multiple terminals, and offload communication-related tasks from the main computer, thereby improving the overall efficiency and reliability of the network.

Oct/Nov 2009

15. Which of the following is a type of communication processor used to enhance data communication?
(A) Signal Repeater
(B) Multiplexer
(C) Message Switch
(D) Front-end Processor

Ans :

(A) Signal Repeater
Communication processors are devices used to enhance data communication. While complex processors like Message Switches, Multiplexers, and Front-end Processors manage traffic and offload tasks, a Signal Repeater is a more fundamental device that also serves this purpose by regenerating signals to improve quality and extend transmission distance, overcoming noise and distortion.

May/June 2011

16. A communication processor that is used for storing and forwarding data from a large number of terminals over a single communication channel, routing them one at a time to the CPU, is known as a:
(A) Multiplexer
(B) Message switch
(C) Front-end processor
(D) Modem

Ans :

(B) Message switch
A message switch is designed for storing and forwarding data. It receives data from multiple terminals, stores the messages in a queue, and then routes them individually to the central processing unit (CPU) for transmission. It also performs the reverse function of distributing messages from the CPU to the appropriate terminals during reception, managing traffic efficiently.

Oct/Nov 2018

17. What is the function of a Multiplexer in a data communication network?
(A) To off-load communication tasks from the host computer
(B) To enable more than one signal to be sent simultaneously over one physical channel
(C) To store and forward data from multiple terminals in a queue
(D) To convert digital signals to analogue signals for transmission

Ans :

(B) To enable more than one signal to be sent simultaneously over one physical channel

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first and online platforms, partnering with traditional banks for licensing.

Oct/Nov 2022

56. The RBI notification detailing the criteria for determining customer liability in unauthorised electronic banking transactions was issued on which date?
(A) July 6, 2017
(B) September 20, 2019
(C) December 31, 2019
(D) August 27, 2015

Ans :

(A) July 6, 2017
To enhance customer protection in the rapidly growing digital payments ecosystem, the Reserve Bank of India issued a comprehensive framework to limit the liability of customers in case of unauthorized electronic banking transactions. This important notification, which clarifies the responsibilities of both the bank and the customer, was issued by the RBI on July 6, 2017.

May/June 2018

57. What is the primary objective of the RBI's framework on "Harmonization of Turn Around Time (TAT) and Customer Compensation for Failed Transactions"?
(A) To increase the number of transactions that fail due to various technical and network issues.
(B) To completely absolve banks of any financial responsibility for failed electronic transactions.
(C) To create a uniform and time-bound process for resolving failed transactions and compensating customers.
(D) To allow each bank to set its own unique compensation policy without any industry standardization.

Ans :

(C) To create a uniform and time-bound process for resolving failed transactions and compensating customers.
Customer complaints often arise from unsuccessful or 'failed' electronic transactions where the process is not uniform. The RBI's framework, issued on September 20, 2019, aims to address this by standardizing the Turn Around Time (TAT) for resolving such issues and specifying a uniform compensation structure, thereby increasing customer confidence and bringing uniformity across all payment systems.

Oct/Nov 2016

58. Read the following excerpt: "In the Indian situation, the public sector banks have implemented technology blueprint by networking their branches. Their customers are experiencing the transition from being a branch customer to a bank customer due to core banking solutions. Customers have the advantage of using the ATM set up by any bank in India, irrespective of the bank with which they have the account."
What concept is being described by a customer's ability to use an ATM of any bank?
(A) Interoperability
(B) Branch-specific banking
(C) Closed-loop payment system
(D) Manual transaction processing

Ans :

(A) Interoperability
The excerpt describes a key benefit of modern banking technology. The ability of a customer from one bank to use an ATM of another bank is known as interoperability. This is made possible by networked systems like the National Financial Switch (NFS), which connect different banks' ATM networks, allowing for seamless transactions across the entire banking system.

May/June 2014

59. Which of the following is an example of an electromagnetic card?
(A) Aadhaar Card
(B) Voter ID Card
(C) PAN Card
(D) Debit Card

Ans :

(D) Debit Card
Electromagnetic cards, often referred to as plastic money, are cards that store data on a magnetic stripe or in a chip. This category includes credit cards, debit cards, charge cards, and smart cards. These cards are used to facilitate electronic payments and access banking services through channels like ATMs and POS terminals. Aadhaar, Voter ID, and PAN cards are primarily for identification.

NODIA

The initiative for a dedicated banking communication network in India gained momentum from a specific committee's recommendation. In 1987, a committee chaired by Shri T.N. Anantharam Iyer, then the executive director of the Reserve Bank of India, strongly advocated for the creation of a cooperative communication network specifically designed for the banking industry's needs.

Oct/Nov 2013

23. BANKNET, commissioned in 1991, was based on which protocol and network topology?
(A) TCP/IP protocol with a star topology
(B) MPLS protocol with a bus topology
(C) X.25 protocol with a mesh topology
(D) Ethernet protocol with a ring topology

Ans :

(C) X.25 protocol with a mesh topology
BANKNET, a pioneering network for Indian banks commissioned in 1991, was a packet-switched network. It was specifically based on the X.25 protocol. Its architecture featured nodes at Mumbai, Delhi, Chennai, and Kolkata, along with a switching centre at Nagpur, all interconnected using a mesh topology, which provides multiple paths between nodes for enhanced reliability.

May/June 2015

24. What was a primary reason for the low usage of BANKNET after its launch?
(A) The network used outdated software protocols that were not compatible with modern bank systems
(B) It was considered too slow for inter-city data transfers, suffering from high latency and low bandwidth
(C) The cost of accessing the network, including per-transaction fees, was prohibitively high for most banks
(D) The high rate of leased line failure and limitations of the COMET software which did not permit file transfer

Ans :

(D) The high rate of leased line failure and limitations of the COMET software which did not permit file transfer
Despite being a technologically advanced initiative, BANKNET's usage fell below expectations. A major reason was that it was ahead of its time. This was compounded by practical issues, including a high failure rate of both inter-city and intra-city leased data circuits. Additionally, the COMET application software had a significant limitation as it did not permit file transfer.

Oct/Nov 2011

25. What was the primary function of the Interbank National Authorization System (INAS)?
(A) To provide electronic authorization for credit card transactions, replacing phone authorization
(B) To provide electronic settlement services for high-value transactions between banks
(C) To offer a secure platform for inter-bank messaging and large file transfers
(D) To serve as a dedicated gateway for connecting to international financial networks like SWIFT

Ans :

(A) To provide electronic authorization for credit card transactions, replacing phone authorization
The Interbank National Authorization System (INAS) was the initial component of MasterCard's global telecommunications network. Its specific and primary function was to introduce and manage electronic authorization for transactions. This new system was designed to replace the older, slower method of seeking transaction authorization over the phone, thereby speeding up the approval process.

May/June 2010

26. The Interbank Network for Electronic Transfer (INET) was a data communication network based on which technology?
(A) Frame Relay technology with error detection but no correction mechanisms
(B) X.25 data network based on Packet Switched Public Data (PSPD) technology
(C) ATM (Asynchronous Transfer Mode) technology for high-speed multimedia traffic
(D) Satellite communication technology with VSAT terminals for remote area connectivity

Ans :

(B) X.25 data network based on Packet Switched Public Data (PSPD) technology
INET, established in 1991 by the department of telephones, was designed as a fast and reliable data communication network. It was an X.25 data network built upon Packet Switched Public Data

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CHAPTER 45

Data Communication Network and EFT Systems

Oct/Nov 2016

1. Which of the following was NOT a conventional paper-based instrument used for settling payment transactions before the advent of modern electronic systems?
(A) Dividend and interest warrants
(B) Unified Payment Interface (UPI)
(C) Traveller cheques
(D) Refund orders

Ans :

(B) Unified Payment Interface (UPI)
Conventionally, payment transactions were settled using paper-based instruments like cheques, drafts, dividend warrants, interest warrants, refund orders, and traveller cheques. Unified Payment Interface (UPI) is a modern, real-time electronic payment system and not a traditional paper-based instrument. It represents the shift towards digital and automated fund transfer mechanisms in banking.

May/June 2021

2. In which year were the significant communication networks, Banknet and SWIFT, commissioned in India, marking a major step in banking technology?
(A) 1991
(B) 1987
(C) 1995
(D) 2004

Ans :

(A) 1991
The introduction of modern communication networks was a pivotal moment for Indian banking. On the communication front, both Banknet, for domestic messaging, and SWIFT, for international messaging, were commissioned in India in the year 1991. This laid the foundation for subsequent developments in electronic funds transfer and automated clearing systems in the country.

NODIA

Oct/Nov 2012

3. What is the primary advantage of data communication networks for banks?
(A) To increase the use of paper-based instruments for better record-keeping
(B) To centralize all computer systems in a single geographical location
(C) To drastically cut costs and the time involved in transferring data
(D) To exclusively handle customer complaints and feedback

Ans :

(C) To drastically cut costs and the time involved in transferring data
Data communication networks help banks to significantly reduce the costs and time associated with transferring data from its point of origin to the computer for processing, and then from the computer to the point of use. This efficiency is achieved by enabling computer systems, even those in dispersed locations, to share resources and communicate electronically.

May/June 2008

4. According to the fundamental structure of data communications, how many basic components constitute a data communication network?
(A) Two
(B) Four
(C) Five
(D) Three

Ans :

(D) Three
Data communications are built upon a framework of essential components that work together. When these components operate in unison to share resources, they form a network. The text specifies that a data communication network is formed

Oct/Nov 2007

60. Identify the incorrect statement regarding the features of a Cash Recycler.

(A) It can accept cash from customers and also dispense cash.

(B) Cash deposit is made using a credit card only.

(C) It helps in recognizing counterfeit notes.

(D) It allows cardless transactions up to ₹20,000 per day.

Ans :

(B) Cash deposit is made using a credit card only. Cash Recyclers offer multiple functionalities. They can both accept and dispense cash, and they are equipped to detect counterfeit currency. They also support cardless transactions up to a certain limit. However, cash deposits are typically made using a debit card to link the transaction directly to the customer's bank account, not a credit card.

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Oct/Nov 2010

9. Which statement accurately describes a coaxial cable?

(A) It is a pair of insulated copper wires twisted to prevent cross-talk

(B) It is made of thin glass fibres and transmits data using a beam of light at 2 gigabits per second

(C) It consists of an inner copper core held by circular spacers and can carry digital signals at 500 megabits per second

(D) It is primarily used for short-distance connections of up to 150 meters due to high signal loss

Ans :

(C) It consists of an inner copper core held by circular spacers and can carry digital signals at 500 megabits per second

A coaxial cable is constructed with an inner copper core that is held in position by circular spacers and surrounded by insulation and a protective sheath. This structure protects the core and prevents signal interference. It is capable of carrying digital signals at very high rates, specified as 500 megabits per second, making it suitable for high-speed data transmission.

May/June 2023

10. What is a significant advantage of using optical fibre for data transmission?

(A) Its transmissions are not affected by electromagnetic interference

(B) It is the most cost-effective option for short-distance connections

(C) It uses existing telephone lines without any modification

(D) It is limited to a maximum data rate of 500 megabits per second

Ans :

(A) Its transmissions are not affected by electromagnetic interference

Optical fibre represents a technological breakthrough, offering high-quality, low-error-rate transmission at very high speeds, supporting up to 2 gigabits per second. A key advantage is its immunity to electromagnetic interference, as it transmits data using a beam of light through thin glass or plastic fibres, ensuring signal integrity even in electrically noisy environments.

Oct/Nov 2015

11. For security reasons in modern optical fibre systems, what is often used as the light source instead of a high-speed laser beam?

(A) Infrared transmitters

(B) Ultraviolet lamps

(C) Halogen bulbs

(D) Light-emitting diodes (LEDs)

Ans :

(D) Light-emitting diodes (LEDs)

While the light source for optical fibre data transfer can be a laser beam driven by a high-speed, high-current driver, an alternative is used for security reasons. These days, to enhance security, light-emitting diodes (LEDs) are often employed as the light source. This choice helps in creating a more secure data transmission environment within the optical fibre system.

May/June 2006

12. Which of the following statements best describes microwave systems?

(A) They use thin glass fibres to transmit data as beams of light

(B) They use high-frequency radio signals, with antennae on towers to send and retransmit wave beams

(C) They consist of two insulated copper wires twisted together to minimize cross-talk

(D) They are stationary satellites orbiting the earth, equipped with transponders

Ans :

(B) They use high-frequency radio signals, with antennae on towers to send and retransmit wave beams

Microwave systems utilize high-frequency radio signals, similar to those used in telephone and television transmissions, to carry information. The system involves antennae mounted on towers that send wave beams from one point to another. Along the route, the received data is amplified and retransmitted to continue its journey, and can also be passed to communication satellites.

Oct/Nov 2022

13. In the context of communication satellites, what is the function of a transponder?

(A) It provides the power supply for the satellite's operations

(B) It keeps the satellite stationary relative to the earth

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Oct/Nov 2006

52. Read the following information on mobile banking: "The disbursal of cash can be facilitated at ATMs or through any agent(s) appointed by the bank as business correspondents. The conditions for this are:

a. Cash out: Maximum amount - ₹10,000 per transaction.
b. Velocity cap to be decided by banks with Maximum amount - ₹25,000 per month, per beneficiary."

Based on the text, what is the maximum monthly velocity cap per beneficiary for cash-out transactions?

(A) ₹10,000
(B) ₹20,000
(C) ₹50,000
(D) ₹25,000

Ans :

(D) ₹25,000

The provided text outlines the conditions for fund transfers via mobile banking that result in a cash payout. While the per-transaction limit is set at ₹10,000, there is also a monthly limit to control the frequency and total amount received by a single person. This is referred to as the velocity cap, which is set at a maximum of ₹25,000 per month for each beneficiary.

May/June 2021

53. The USSD-based mobile banking service, which does not require a smartphone or data connection, can be accessed by dialing which code?

(A) 999#
(B) 121#
(C) 99#
(D) 100#

Ans :

(C) 99#

To extend banking services to users with basic feature phones without internet access, the Unstructured Supplementary Service Data (USSD) platform was introduced. This service, which works on the GSM network, was launched by NPCI and can be accessed by dialing the common code 99#. It allows for basic banking services like balance enquiry and fund transfers.

Oct/Nov 2010

54. A bank facilitates a mobile banking fund transfer of ₹4,500 for a customer. The bank decides not to use end-to-end encryption for this specific transaction to save processing time. Is this action permissible under the regulations?

(A) No, all mobile banking transactions, regardless of the amount, must have end-to-end encryption.
(B) Yes, because transactions up to ₹5,000 can be facilitated without end-to-end encryption.
(C) Yes, because encryption is only mandatory for transactions above ₹10,000.
(D) No, because the decision to disable encryption can only be made by the customer, not the bank.

Ans :

(B) Yes, because transactions up to ₹5,000 can be facilitated without end-to-end encryption.

While information security is critical for mobile banking, regulations provide some flexibility for small-value transactions to promote adoption. All mobile transactions should generally be encrypted end-to-end. However, an exception is made for transactions up to ₹5,000, which banks are permitted to facilitate without mandatory end-to-end encryption, balancing security with convenience.

May/June 2005

55. What is the defining characteristic of a Neo-Bank?

(A) It is a traditional bank that has recently opened many new physical branches in urban centers.
(B) It is a government-owned bank that exclusively serves rural customers through correspondent networks.
(C) It is a specialized bank that only provides loan products and does not accept any form of deposits.
(D) It is a digital-only bank that does not have any physical branches and operates entirely online.

Ans :

(D) It is a digital-only bank that does not have any physical branches and operates entirely online.

A Neo-Bank represents a new model in banking that is entirely digital. Its defining feature is the complete absence of a physical branch network. These are Fintech firms that provide a range of banking services, such as payments, money transfers, and lending, primarily through mobile-

NODIA

A multiplexer is a device that enhances channel efficiency by allowing multiple signals to be transmitted concurrently over a single physical channel. It achieves this by combining inputs from two or more terminals, computer ports, or other multiplexers into a single high-speed data stream. This combined stream is then demultiplexed at the receiving end.

May/June 2025

18. The purpose of a Front-End Processor (FEP) is to:
(A) Off-load communication-related tasks from the host computer to manage peripheral devices
(B) Combine signals from multiple terminals into a single high-speed channel
(C) Convert analogue signals to digital signals at the receiving end
(D) Store messages from terminals and forward them one at a time

Ans :

(A) Off-load communication-related tasks from the host computer to manage peripheral devices
A Front-End Processor (FEP), also known as a communications processor, is a small-sized computer that interfaces with the host computer. Its primary purpose is to off-load tasks like managing peripheral devices, transmitting/receiving messages, packet assembly/disassembly, and error correction. This frees the host computer's CPU to focus on its main application processing tasks.

Oct/Nov 2007

19. Which mode of transmission allows data to be sent in only one direction, as seen in commercial radio broadcasts?
(A) Full-duplex
(B) Half-duplex
(C) Simplex
(D) Multiplex

Ans :

(C) Simplex
Simplex transmission defines a signal flow that is strictly unidirectional. In this mode, data can be transmitted in only one direction. The device at the sending end can only transmit and cannot receive, while the device at the receiving end can only receive and cannot transmit. A classic example of this is a commercial radio broadcast.

May/June 2012

20. A walkie-talkie is a good example of which mode of data transmission?
(A) Half-duplex
(B) Simplex
(C) Full-duplex
(D) Complex

Ans :

(A) Half-duplex
A half-duplex transmission allows data to move in both directions between two devices, but critically, only in one direction at any given time. The transmitting end must wait for a response from the receiving end before sending another message. A walkie-talkie perfectly illustrates this, as one person must finish speaking before the other can respond.

Oct/Nov 2024

21. Which transmission mode provides simultaneous two-way communication and avoids the delay inherent in half-duplex circuits?
(A) Simplex
(B) Multiplex
(C) Simplex-plus
(D) Duplex

Ans :

(D) Duplex
Full-duplex, commonly called 'Duplex', enables simultaneous two-way data transmission. This mode is faster because it eliminates the delay that occurs in half-duplex systems each time the direction of transmission is changed. A common example is the use of four-wire full-duplex modems on telephone lines, allowing both parties to send and receive data at the same time.

May/June 2005

22. Which committee, set up in 1987 under the chairmanship of an executive director of the Reserve Bank of India, strongly recommended the establishment of a cooperative communication network for the banking industry?
(A) T.N. Anantharam Iyer Committee
(B) Rangarajan Committee
(C) Saraf Committee
(D) Narasimham Committee

Ans :

(A) T.N. Anantharam Iyer Committee

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from three basic components: Transmission Devices and Interface Equipment, Transmission Medium, and Transmission Processors, which enable the entire communication process.

Oct/Nov 2025

5. What is the primary function of an interface device called a 'Modem' in a data communications network?

(A) It exclusively stores data for backup and archival purposes
(B) It boosts the processing speed of the host computer's main processor
(C) It performs conversion between digital and analogue signal forms
(D) It encrypts all data before transmission across the network

Ans :

(C) It performs conversion between digital and analogue signal forms
A Modem, which stands for Modulator-Demodulator, is an essential interface device used in data communications. Its main purpose is to handle the conversion of signals. It converts digital signals from a computer into analogue signals for transmission over analogue lines like telephone wires, and vice-versa at the receiving end, overcoming signal attenuation over long distances.

May/June 2014

6. In a data communication setup, what specific action does the modem at the transmitting end perform?

(A) It demodulates incoming analogue signals into digital signals
(B) It modulates digital signals received from a computer into analogue signals
(C) It directly connects to a satellite for long-distance transmission
(D) It stores the digital signals in a buffer before transmission

Ans :

(B) It modulates digital signals received from a computer into analogue signals
The modem at the transmitting end of a communication line is responsible for modulation. It takes the digital signals generated by a computer or terminal and converts, or modulates, them into analogue signals. These analogue signals, in the form of modulated tones, are then suitable for transmission over standard analogue communication channels like telephone lines.

Oct/Nov 2005

7. Which of the following correctly describes the function of a modem at the receiving end of a communication line?

(A) It modulates the digital signals into a different frequency
(B) It amplifies the analogue signals to increase their strength
(C) It routes the analogue signals to the appropriate terminal
(D) It demodulates incoming analogue signals back into the original digital format

Ans :

(D) It demodulates incoming analogue signals back into the original digital format
The function of a modem at the receiving end is the reverse of the one at the transmitting end. It performs demodulation, which involves converting the incoming analogue signals received over the communication line back into their original digital format. This allows the receiving computer or terminal to correctly interpret the transmitted data.

May/June 2019

8. What are the key characteristics of a twisted pair cable as a transmission medium?

(A) It consists of two insulated copper wires and is useful for distances up to 150 meters
(B) It consists of a single copper core and supports data rates of 500 megabits/sec
(C) It uses a laser beam and is immune to electromagnetic interference
(D) It is primarily used for satellite communication due to its high bandwidth

Ans :

(A) It consists of two insulated copper wires and is useful for distances up to 150 meters
A twisted pair cable is a common transmission medium consisting of two insulated copper wires twisted together. This design helps to minimize the risk of cross-talk and signal distortion. Due to its low cost and ease of use, it is a popular choice for connecting terminals to computers over relatively short distances, typically up to 150 meters.

NODIA

(PSPD) technology. This technology involved fragmenting data into packets, which were then stored and routed by packet switches (nodes) with built-in error detection and correction techniques.

Oct/Nov 2020

27. Which of the following is NOT listed as a typical application of the INET network?
(A) Electronic Mail Services
(B) Credit Card Verifications
(C) Video Conferencing
(D) Information Retrieval

Ans :

(C) Video Conferencing
The INET network was useful for a variety of applications that required data communication. These included Electronic Mail Services, Corporate Communications, Information Retrieval, Database Services, Remote Login, Credit Card Verifications, and Electronic Funds Transfers. Video conferencing is not mentioned in the list of typical applications for which INET was deemed useful.

May/June 2022

28. What was the name of the single entity formed by combining the Interbank Network for Electronic Transfer (INET) and the Interbank National Authorization System (INAS)?
(A) RBINet
(B) NICNET
(C) INFINET
(D) BANKNET

Ans :

(D) BANKNET
To create a more integrated system, two separate but related networks were merged. The Interbank Network for Electronic Transfer (INET), which handled electronic settlement, and the Interbank National Authorization System (INAS), which handled transaction authorizations, were combined into a single, unified entity that was subsequently named BANKNET, operated by MasterCard.

Oct/Nov 2023

29. Consider the following statements about the Banknet operated by MasterCard:
1. It operates as a virtual private network (VPN).
2. It functions through a centralized, "hub & spoke" system.
3. It is a peer-to-peer (P2P) network.

Which of the statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(C) 1 and 3 only
The Banknet operated by MasterCard, established in 1997, is a global telecommunications network. It operates as a virtual private network (VPN) where all its nodes are linked. Unlike Visa's centralized "hub & spoke" system, Banknet is a peer-to-peer (P2P) network, which connects its many endpoints with greater flexibility and a lower risk of widespread failure.

May/June 2013

30. How does the architecture of MasterCard's Banknet differ from Visa's transaction handling system?
(A) Banknet uses a peer-to-peer (P2P) system, while Visa uses a centralized "star-based/hub & spoke" system.
(B) Banknet is centralized, while Visa's network is peer-to-peer.
(C) Both networks use an identical centralized "hub & spoke" architecture.
(D) Both networks rely on a single main data center for all transactions.

Ans :

(A) Banknet uses a peer-to-peer (P2P) system, while Visa uses a centralized "star-based/hub & spoke" system.
The two networks have distinct architectural designs. Banknet, operated by MasterCard, functions as a peer-to-peer (P2P) network with over 1,000 data centers acting as endpoints. In contrast, Visa's network handles transactions through a centralized, or "star-based/hub & spoke," system, which connects its many endpoints to only a few main data centers.

Oct/Nov 2014

31. Which of the following statements correctly describes NICNET?
(A) It was set up in 1991 by the RBI as a fully terrestrial network for banking.

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and Bharti Airtel provide the necessary infrastructure and services that allow individuals and organizations to connect their computers to the internet. They also offer related services like email accounts.

May/June 2018

40. Which of the following is a protocol available in India for establishing a connection to the host computer of an Internet Service Provider?
(A) File Transfer Protocol (FTP)
(B) Hypertext Transfer Protocol (HTTP)
(C) Simple Mail Transfer Protocol (SMTP)
(D) Point to Point Protocol (PPP)

Ans :

(D) Point to Point Protocol (PPP)
To connect to an ISP's host computer, specific interface protocol software is required. In India, two such protocols are available for this purpose. These are the Serial Line Protocol (SLIP) and the Point to Point Protocol (PPP). These protocols manage the connection between the user's computer and the ISP's network over a serial line, like a modem connection.

Oct/Nov 2021

41. Which of the following is a form of broadband internet service?
(A) Dial-up Modem
(B) Digital Subscriber Line (DSL)
(C) Simplex Line Protocol (SLP)
(D) Integrated Services Digital Network (ISDN)

Ans :

(B) Digital Subscriber Line (DSL)
Broadband is the most used form of Internet access due to its high-speed data transmission. It is offered in various forms. These include Digital Subscriber Line (DSL), which uses telephone lines, Cable Modem, Optical Fiber, Wireless, Satellite, and Broadband over Power lines (BPL). Dial-up is a much slower, older technology, not considered broadband.

May/June 2009

42. Match the Internet Service in List-I with its correct description in List-II.
List-I
P. Telnet
Q. FTP
R. Archie
S. Gopher
List-II
1. A tool for indexing archives, considered the first Internet search engine.
2. A protocol to log into another computer on the same network.
3. A protocol to extract and view Web documents stored on remote servers.
4. A standard protocol for transferring computer files between a server and a client.
(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-1, S-2

Ans :

(A) P-2, Q-4, R-1, S-3
Telnet is a protocol that allows a user to log into a remote computer. FTP is the standard protocol for file transfers. Archie is a tool that indexes FTP archives, making it the first internet search engine. Gopher is an application-layer protocol used to extract and view documents from remote web servers.

Oct/Nov 2016

43. Which file transfer protocol runs over the SSH protocol, protecting against password sniffing and man-in-the-middle attacks by using encryption and authenticating both the server and the user?
(A) FTP
(B) TFTP
(C) SFTP
(D) FTPS

Ans :

(C) SFTP
SFTP, which stands for SSH File Transfer Protocol, is a secure file transfer protocol. It operates over the SSH (Secure Shell) protocol, inheriting its full security and authentication features. SFTP protects data integrity with encryption and cryptographic hash functions, authenticates both user and server, and guards against threats like password sniffing and man-in-the-middle attacks.

May/June 2021

44. Arrange the following events in the evolution of EFT systems in chronological order:
1. Introduction of MICR by the American Bankers Association.
2. The first Automated Clearing House (ACH) started operating in the USA.

NODIA

To overcome the challenge of the prevailing poor quality of terrestrial communication lines in India, INFINET was designed with a more reliable technology. The network utilized satellite communication, employing Very Small Aperture Terminals (VSATs) as earth stations at various locations. This approach ensured a robust and dependable infrastructure for the financial sector's communication needs.

May/June 2024

36. Currently, the Indian Financial Network (INFINET) is managed by which entity and what is its nature?

(A) It is managed by IDRBT and is an open network for public use.
(B) It is managed by IFTAS and is a closed user group MPLS network.
(C) It is managed by RBI directly and is a satellite-only VSAT network.
(D) It is managed by NPCI and is an open peer-to-peer network.

Ans :

(B) It is managed by IFTAS and is a closed user group MPLS network.
INFINET has evolved from its original structure. It is now a closed user group MPLS (Multi-Protocol Label Switching) network dedicated to the banking and financial sector. The management of this critical network is handled by the Indian Financial Technology and Allied Services (IFTAS), which is a wholly owned subsidiary of the Reserve Bank of India.

Oct/Nov 2008

37. Consider the following two statements regarding IFTAS:
Statement I: IFTAS is a wholly owned subsidiary of the Reserve Bank of India, registered under the Companies Act, 2013.
Statement II: IFTAS was established in February 2015 by the National Payments Corporation of India (NPCI).
Which of the following is correct?

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is correct and Statement II is incorrect.
(D) Statement I is incorrect and Statement II is correct.

Ans :

(C) Statement I is correct and Statement II is incorrect.
Statement I is correct; Indian Financial Technology and Allied Services (IFTAS) is indeed a wholly owned subsidiary of the RBI and is registered under the Companies Act, 2013. However, Statement II is incorrect. IFTAS was established in February 2015 by the Institute for Development and Research in Banking Technology (IDRBT), not by NPCI.

May/June 2016

38. What was the name of the precursor to the Internet, originally designed by the US Department of Defence for military purposes?

(A) NSFNET
(B) BANKNET
(C) ARPANET
(D) INET

Ans :

(C) ARPANET
The Internet's origins can be traced back to the late 1960s. Its precursor was a network called ARPANET. This network was originally designed by the US Department of Defence in collaboration with universities and research facilities. It was created for military purposes and laid the foundational technologies that later evolved into the public internet we use today.

Oct/Nov 2019

39. What is the role of an Internet Service Provider (ISP) like BSNL or Bharti Airtel?

(A) To provide individuals and organizations with access to the Internet and related services
(B) To manufacture computer hardware, such as modems and routers, for internet access
(C) To develop and maintain web browser software for accessing websites and web applications
(D) To regulate and censor the content available to users on the Internet

Ans :

(A) To provide individuals and organizations with access to the Internet and related services
An Internet Service Provider (ISP) is a company that acts as a gateway to the internet. Companies such as MTNL, BSNL, Reliance Jio Infocomm,

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(D) All messages sent through the network are acknowledged as either accepted or rejected.

Ans :

(A) It allows only free-format messages, with no provision for standardized formats.
A core strength of SWIFT is its standardization. The system uses approximately 400 different standardized message formats for various inter-bank transactions, ensuring clarity and consistency. While free-format messages are also permitted, the system is fundamentally built on these standard formats. Therefore, the statement that it allows only free-format messages is incorrect.

Oct/Nov 2005

49. Regarding the security and liability of messages, what responsibility does SWIFT assume?
(A) It assumes no financial liability for any message, placing all risk on the sending and receiving banks.
(B) It assumes liability only for messages between the regional processor and the central operating centers.
(C) It assumes liability only for the confidentiality of the message, not its accuracy, timeliness, or delivery.
(D) It assumes financial liability for the accuracy and timely delivery of validated messages within its network.

Ans :

(D) It assumes financial liability for the accuracy and timely delivery of validated messages within its network.
SWIFT provides a high degree of reliability and accountability. It explicitly assumes financial liability for the accuracy and timely delivery of all validated messages. This liability covers the message's journey from the point it enters the SWIFT network to the point it leaves the network, providing a crucial guarantee for participating financial institutions.

May/June 2019

50. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R).
Assertion (A): SWIFT employs a Key Authentication Mechanism to ensure the integrity of messages.
Reason (R): This mechanism is an automated version of telegraphic test keys and is calculated on the entire message text to detect any changes.
In the context of the two statements, which of the following is correct?
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion is true; SWIFT uses a key authentication mechanism for security. The reason is also true and correctly explains the assertion. This mechanism is an improved, automated version of the traditional telegraphic test keys. By automatically calculating a value based on the entire message text, it ensures that any alteration to the message will be detected.

Oct/Nov 2010

51. What is a key feature of the SWIFT GPI (Global Payments Innovation) standard?
(A) It slows down payments to allow for more detailed fraud checks.
(B) It restricts cross-border payments to a few correspondent banks.
(C) It provides the ability to immediately stop a payment at any point in the payment chain.
(D) It removes the need for transparency of the message throughout its cycle.

Ans :

(C) It provides the ability to immediately stop a payment at any point in the payment chain.
SWIFT GPI was introduced to dramatically improve cross-border payments. One of its most important features is the ability for banks to stop a payment instantly, regardless of where it is in the payment chain. This capability, where every bank in the chain is notified simultaneously, is a significant advancement in reducing cross-border fraud and managing risk.

May/June 2023

52. The Clearing House Inter-Bank Payment System (CHIPS) is the world's premier system for what type of transfers?

NODIA

3. The Special Committee on Paperless Entries (SCOPE) was set up in the USA.

(A) 1, 3, 2
(B) 3, 1, 2
(C) 1, 2, 3
(D) 2, 3, 1

Ans :

(A) 1, 3, 2
The evolution of EFT began with cheque mechanization. The American Bankers Association introduced MICR in 1954 (1). Later, in 1968, the Special Committee on Paperless Entries (SCOPE) was established in the USA to explore the concept of automated clearinghouses (3). This led to the first ACH beginning its operations in 1972 (2).

Oct/Nov 2012

45. Consider the following statements regarding the evolution of EFT systems:
Statement I: Point of Sale (POS) systems came into existence in the 1970s.
Statement II: Private card systems like Visa and Mastercard evolved as alternative payment systems during the same period.
Statement III: The widely adopted definition of EFT is given by Article 4A of the Uniform Commercial Code (UCC) of the USA.
Which of the statements are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II, and III

Ans :

(D) I, II, and III
All three statements are correct. The 1970s saw the emergence of POS systems alongside the expansion of reliable communication networks. During this time, private card networks like Visa, Mastercard, and American Express also developed as alternative payment methods. The legal definition of EFT commonly used is indeed provided by Section } 105(5) of Article 4A of the USA's UCC.

May/June 2008

46. In the USA, which of the following are listed as primary systems through which interbank payments are processed and settled?
(A) NEFT, RTGS, and IMPS only
(B) Cheque clearing, ACH, Card networks, Fedwire, and CHIPS
(C) SWIFT and Bankwire exclusively
(D) POS networks and ATM settlements only

Ans :

(B) Cheque clearing, ACH, Card networks, Fedwire, and CHIPS
The US interbank payment landscape is multifaceted. Payments are primarily processed and settled through a combination of systems. These include traditional cheque clearing, the Automated Clearing House (ACH) for batch processing, private card networks, and large-value transfer systems like Fedwire and the Clearing House Inter-Bank Payment System (CHIPS), along with the National Settlement Service (NSS).

Oct/Nov 2025

47. What is the legal status and founding history of the Society for Worldwide Inter-bank Financial Telecommunications (SWIFT)?
(A) A for-profit corporation founded in 1983 in New York.
(B) A cooperative non-profit organisation founded in 1973 under Belgian law.
(C) A government agency established in 1991 by the G7 countries.
(D) A private company founded in 1968 in London.

Ans :

(B) A cooperative non-profit organisation founded in 1973 under Belgian law.
SWIFT was founded in 1973 by a consortium of 239 banks across fifteen countries. It was established as a cooperative non-profit organisation under Belgian law, with its headquarters located in Brussels. Its objective was to create a unified and standardized system for international transaction processing and transmission to meet the growing needs of the banking industry.

NODIA

May/June 2014

48. Which of the following is NOT a main feature of the SWIFT system?
(A) It allows only free-format messages, with no provision for standardized formats.
(B) It is operational 24 hours a day, throughout the year.
(C) All message formats for inter-bank transactions are standardized.

(B) It is a local area network (LAN) exclusively for private sector banks in metro cities.
(C) It is primarily a messaging software developed in 'C' language for government use.
(D) It was set up in 1976 by the National Informatics Centre as a satellite-based WAN.

Ans :

(D) It was set up in 1976 by the National Informatics Centre as a satellite-based WAN.
NICNET was established in 1976 by the National Informatics Centre (NIC), a Government of India organization. It is a satellite-based, nation-wide computer-communication network, which classifies it as a type of Wide Area Network (WAN). It serves as India's largest WAN, providing crucial infrastructure for various government services and applications across the country.

May/June 2020

32. The National Informatics Centre (NIC) facilitates the electronic delivery of services to various entities. Which combination correctly represents these services?
(A) G2G, G2B, Government to Citizen (G2C), and Government to Employee (G2E)
(B) Government to Government (G2G) and Citizen to Citizen (C2C) only
(C) Government to Business (G2B) and Business to Business (B2B) only
(D) G2C, G2E, and Citizen to Government (C2G) only

Ans :

(A) G2G, G2B, Government to Citizen (G2C), and Government to Employee (G2E)
The National Informatics Centre (NIC) provides extensive ICT and eGovernance support. It facilitates the electronic delivery of services across multiple domains, including government-to-government (G2G), government-to-business (G2B), government-to-citizen (G2C), and government-to-employee (G2E). This wide range of services underscores its role in the digital transformation of governance in India.

Oct/Nov 2017

33. RBINet, a communication software, is used by banks for several applications. Which of the following is an application mentioned for RBINet?
(A) Processing of international trade finance documents like letters of credit
(B) Authorizing credit card transactions in real-time at the point of sale terminals
(C) Transmission of data related to Section 42(2) of the RBI Act, 1934
(D) Real-time gross settlement of high-value inter-bank payment instructions

Ans :

(C) Transmission of data related to Section 42(2) of the RBI Act, 1934
RBINet is a communication software that allows for messaging and file transfer. Several bank departments use it for specific applications. One key application is the transmission of data by commercial banks to the regional offices of the RBI's Department of Banking Operations and Development (DBOD) as required under Section 42(2) of the RBI Act, 1934.

May/June 2007

34. The establishment of the Indian Financial Network (INFINET) was based on the recommendations of which committee?
(A) Rangarajan Committee
(B) Anantharam Iyer Committee
(C) N. Vaghul Committee
(D) Saraf Committee

Ans :

(D) Saraf Committee
The decision by the Reserve Bank of India to establish a countrywide data communication network for banks, which was named INFINET (Indian Financial Network), was a direct outcome of a specific committee's report. This initiative was undertaken as per the recommendations of the Saraf Committee on technology issues in the payment and settlement system.

Oct/Nov 2006

35. What communication technology was initially used by INFINET to ensure a reliable infrastructure, considering the poor quality of terrestrial lines in the country?
(A) Satellite communication with Very Small Aperture Terminals (VSATs)
(B) Twisted pair cables
(C) Coaxial cables
(D) Microwave systems with relay towers

Ans :

(A) Satellite communication with Very Small Aperture Terminals (VSATs)

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(A) International fund transfers, as most international trade is transacted in US dollars
(B) High-value domestic sterling transfers within the United Kingdom
(C) Low-value, high-volume retail payments within the Eurozone countries
(D) High-value inter-bank funds transfers denominated in Hong Kong dollars

Ans :

(A) International fund transfers, as most international trade is transacted in US dollars
CHIPS, which began operations in 1970 and is run by a New York clearing house, is primarily used for international payments. Its prominence stems from the fact that most international trade is transacted in US dollars. Consequently, a majority of international fund transfers, along with various other financial transactions, are routed through the CHIPS network.

Oct/Nov 2015

53. Match the automated clearing system in List-I with the country/region it primarily serves from List-II.
List-I
P. CHIPS
Q. CHAPS
R. CHATS
List-II
1. United Kingdom
2. Hong Kong
3. USA
(A) P-1, Q-2, R-3
(B) P-3, Q-1, R-2
(C) P-2, Q-3, R-1
(D) P-3, Q-2, R-1

Ans :

(B) P-3, Q-1, R-2
These are major automated clearing systems specific to certain financial hubs. CHIPS (Clearing House Inter-Bank Payment System) is a key system in the USA, primarily for US dollar transactions. CHAPS (Clearing House Automated Payment System) is the sterling same-day high-value payment system in the UK. CHATS (Clearing House Automated Transfer System) provides inter-bank transfer facilities in Hong Kong.

May/June 2006

54. A defining characteristic of payments settled through the Clearing House Automated Payment System (CHAPS) in the UK is that they are:
(A) Reversible within 24 hours of settlement
(B) Netted at the end of the business day
(C) Processed in batches every hour
(D) Guaranteed on receipt and irrevocable

Ans :

(D) Guaranteed on receipt and irrevocable
CHAPS is one of the world's largest high-value payment systems, designed for settling time-critical wholesale and retail payments in sterling. A critical feature of the system is the finality it provides. Payments made through CHAPS are guaranteed upon receipt by the receiving institution and, crucially, they are irrevocable, which eliminates settlement risk.

Oct/Nov 2022

55. The Fedwire funds transfer system in the USA is primarily used for which of the following purposes?
(A) Transferring reserve account balances, Government securities, and high-value domestic payments
(B) Settling low-value retail transactions, such as debit card payments and ATM withdrawals
(C) Exclusively for processing international trade finance documentation and letters of credit
(D) Managing the physical clearing of paper cheques between non-member banks and credit unions

Ans :

(A) Transferring reserve account balances, Government securities, and high-value domestic payments
Fedwire, in operation since 1956, is the main funds transfer system of the Federal Reserve. It is a large-value system used primarily for critical financial activities. These include transferring reserve account balances of depository institutions, moving Government securities, and settling high-value domestic payments, including bank-to-bank and corporate-to-corporate transfers made through banks.

May/June 2017

56. Bankwire, the pioneer private sector electronic network in the USA, also provides a clearing and settlement facility known as:

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CHAPTER 46

Digital Payments Systems - NPCL

Oct/Nov 2016

1. What was the primary objective that led to the formation of the National Payments Corporation of India (NPCI)?

(A) To exclusively manage large-value payment systems like RTGS and NEFT.

(B) To consolidate and integrate multiple retail payment systems into a uniform, standard national process.

(C) To create a new regulatory body to oversee the Reserve Bank of India's payment system policies.

(D) To focus solely on the international remittance market and forex clearing services.

Ans :

(B) To consolidate and integrate multiple retail payment systems into a uniform, standard national process.

The core objective behind establishing NPCI was to consolidate and integrate the multiple retail payment systems, which had varying service levels, into a nationwide uniform and standard business process. This initiative stemmed from a vision document released by the Reserve Bank of India after the Board for Payment and Settlement Systems was set up in 2005.

May/June 2021

2. Which of the following are all considered systemically important financial market infrastructures (SIFMIs) in India?

(A) IMPS, UPI, NEFT, and RTGS

(B) NEFT, RTGS, IMPS, and GSTN

(C) UPI, CTS, NACH, and SEBI

(D) ECS, SWIFT, PPIs, and Forex Clearing

Ans :

(A) IMPS, UPI, NEFT, and RTGS

Several electronic clearing systems in India are systemically important financial market infrastructures (SIFMIs). The combination of Immediate Payment Service (IMPS), Unified Payments Interface (UPI), National Electronic Fund Transfer (NEFT), and Real-Time Gross Settlement (RTGS) are all correctly identified as SIFMIs.

Oct/Nov 2010

3. Regarding the establishment and structure of the National Payments Corporation of India (NPCI), which statement is correct?

(A) NPCI was founded in December 2008 as a for-profit company by the Ministry of Finance.

(B) NPCI was established by a consortium of foreign banks to modernize India's payment systems.

(C) NPCI is a not-for-profit organization established by the Reserve Bank of India and Indian Banks' Association.

(D) NPCI operates as a subsidiary of the State Bank of India with five other promoter banks.

Ans :

(C) NPCI is a not-for-profit organization established by the Reserve Bank of India and Indian Banks' Association.

The National Payments Corporation of India (NPCI) was founded in December 2008. It is structured as a not-for-profit organization and was established by the Reserve Bank of India (RBI) and the Indian Banks' Association (IBA). Its vision is to provide simple, safe, secure, fast, and cost-effective payment services to all citizens.

May/June 2005

4. From the list of ten core promoter banks of NPCI, which of the following pairs is correctly mentioned?

(A) Axis Bank and Yes Bank

(B) Kotak Mahindra Bank and IndusInd Bank

(C) Bank of Maharashtra and Indian Overseas Bank

(D) Citibank and HSBC

Ans :

(D) Citibank and HSBC

The chapter explicitly lists the ten core promoter banks that established the National Payments

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clock peer-to-peer fund transfer facility with immediate money transfer". Similarly, UPI offers a "peer-to-peer fund transfer facility with immediate money transfer... round the clock 24 × 7". This shows that immediate, 24 × 7 P2P transfer is a shared feature.

Oct/Nov 2018

59. Based on the provided text, what is the fundamental principle of the Electronic Credit Clearing system?
"Electronic credit clearing: It was launched to provide an alternative to bulk payment transactions passing through the clearing houses, which has greatly obviated the need for issuing a large number of paper-based instruments. This system facilitates transactions that have a single debit and multiple credits."
(A) It processes transactions with multiple debits and a single credit.
(B) It is designed for single, high-value transactions only.
(C) It facilitates transactions involving one debit instruction to fund many credit instructions.
(D) It requires the issuance of paper-based instruments for each credit.

Ans :

(C) It facilitates transactions involving one debit instruction to fund many credit instructions.
The source explicitly states that the Electronic Credit Clearing system is designed for bulk payments and "facilitates transactions that have a single debit and multiple credits." This means a single account is debited once to provide funds for crediting multiple beneficiary accounts, which is ideal for salary payments, dividend distribution, or pension credits.

May/June 2025

60. A corporate treasurer needs to make a critical vendor payment of ₹5,00,000. The payment must be credited to the vendor's account immediately and irrevocably during business hours to ensure the dispatch of goods. The treasurer wants to use the most suitable electronic payment system available in India for this purpose. Which payment system should the treasurer use?
(A) Real-Time Gross Settlement (RTGS)
(B) National Electronic Fund Transfer (NEFT)
(C) Unified Payments Interface (UPI)
(D) Immediate Payment Service (IMPS)

Ans :

(A) Real-Time Gross Settlement (RTGS)
The requirement is for a high-value (₹5,00,000), immediate, and irrevocable transfer. RTGS is the ideal choice as it is designed for high-value transactions (minimum ₹2 lakh), and settlement occurs on a real-time and gross basis, meaning it is immediate and final. NEFT is settled in batches, while UPI and IMPS have lower transaction limits.

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(A) FEDWIRE
(B) CASHWIRE
(C) BANKNET
(D) CHIPS

Ans :

(B) CASHWIRE
Bankwire was an early private sector telecommunication network owned by a US banking association for transmitting messages. In addition to administrative and funds transfer messages, Bankwire expanded its services to include clearing and settlement. This specific clearing facility that it started providing is known by the name 'CASHWIRE', which also undertakes settlement functions.

Oct/Nov 2009

57. Based on the provided table, which statement correctly differentiates RTGS and NEFT?

Payment Service	Description	Launch Date	Operator
Real-Time Gross Settlement (RTGS)	Settlement of fund transfer orders occurs individually on a continuous and real-time basis. The minimum amount for customer transactions is ₹2 lakh	2004	RBI
National Electronic Fund Transfer (NEFT)	One to one fund transfer with a half-hourly net settlement. No minimum or maximum limit	November 2005	RBI

(A) RTGS was launched after NEFT and is operated by commercial banks.
(B) NEFT has a minimum transaction limit of ₹2 lakh, whereas RTGS has no limit.
(C) RTGS offers real-time individual settlement, while NEFT uses a half-hourly net settlement approach.
(D) Both RTGS and NEFT were launched in the same year and follow a net settlement process.

Ans :

(C) RTGS offers real-time individual settlement, while NEFT uses a half-hourly net settlement approach.
The table clearly shows that RTGS, launched in 2004, settles funds on a continuous, real-time, and gross (individual) basis with a minimum limit of ₹2 lakh. In contrast, NEFT, launched in November 2005, is a one-to-one transfer system that operates on a half-hourly net settlement basis and has no minimum or maximum transaction limit.

May/June 2011

58. According to the information in the table, what is a common characteristic of both IMPS and UPI?

Payment Service	Description	Launch Date	Operator
IMPS	Round the clock peer-to-peer fund transfer facility with immediate money transfer through multiple channels like Mobile, Internet, ATM, SMS, Branch and USSD	November 2010	NPCI
UPI	Peer-to-peer fund transfer facility with immediate money transfer through mobile device round the clock 24 × 7 and 365 days. BHIM app supports multiple bank accounts into a single mobile application. The upper limit is ₹2,00,000	August 2016	NPCI

(A) Both systems have an upper transaction limit of ₹2,00,000.
(B) Both systems were launched in the same year by the RBI.
(C) Both systems facilitate immediate, round-the-clock, peer-to-peer fund transfers.
(D) Both systems can only be accessed through the USSD channel.

Ans :

(C) Both systems facilitate immediate, round-the-clock, peer-to-peer fund transfers.
The descriptions for both IMPS and UPI highlight their core function. IMPS provides a "round the

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Corporation of India. Among the given options, Citibank and HSBC are correctly identified as two of these promoter banks. The list also includes major public and private sector Indian banks like State Bank of India, ICICI Bank, and HDFC Bank.

Oct/Nov 2022

5. Which of the following is NOT listed as a payment system or product managed by NPCI?
(A) National Electronic Toll Collection (NETC)
(B) Aadhaar Enabled Payment System (AePS)
(C) Real-Time Gross Settlement (RTGS)
(D) National Common Mobility Card (NCMC)

Ans :

(C) Real-Time Gross Settlement (RTGS)
While RTGS is an important electronic clearing system in India, it is managed by the Reserve Bank of India. The chapter lists numerous products managed by NPCI, including National Electronic Toll Collection (NETC), Aadhaar Enabled Payment System (AePS), and National Common Mobility Card (NCMC), but RTGS is not one of them.

May/June 2018

6. The National Financial Switch (NFS) was originally developed and deployed by which institution before being taken over by NPCI?
(A) Indian Banks' Association (IBA)
(B) Institute for Development and Research in Banking Technology (IDRBT)
(C) Reserve Bank of India (RBI)
(D) Ministry of Electronics and Information Technology (MeitY)

Ans :

(B) Institute for Development and Research in Banking Technology (IDRBT)
The National Financial Switch (NFS), India's largest network of shared ATMs, was initially developed and deployed by the Institute for Development and Research in Banking Technology (IDRBT) in 2004. The NPCI subsequently took over the operations of the NFS from IDRBT on December 14, 2009, to further expand its reach and services.

Oct/Nov 2014

7. What was the status of the NFS network as of January 31, 2022?
(A) 1,000 members and over 2.00 lakh ATMs
(B) 500 members and approximately 1.55 lakh ATMs
(C) 2,000 members and more than 3.00 lakh ATMs
(D) 1,203 members and more than 2.55 lakh ATMs

Ans :

(D) 1,203 members and more than 2.55 lakh ATMs
The text specifies the scale of the National Financial Switch (NFS) network on a particular date. As of January 31, 2022, the network comprised 1,203 member banks and financial institutions, which were connected to a vast network of more than 2.55 lakh ATMs across the country, making it the largest shared ATM network.

May/June 2014

8. Which of the following is classified as a basic service offered by the National Financial Switch (NFS)?
(A) Mini Statement
(B) Interoperable Cash Deposit (ICD)
(C) Card-to-Card Fund Transfer (C2C)
(D) Aadhaar Number Seeding (ANS)

Ans :

(A) Mini Statement
The National Financial Switch offers a set of basic services to all member bank customers. These fundamental services include Cash Withdrawal, Balance Enquiry, PIN Change, and obtaining a Mini Statement. Services like Interoperable Cash Deposit (ICD), Card-to-Card Fund Transfer (C2C), and Aadhaar Number Seeding (ANS) are categorized as value-added services provided through the NFS network.

Oct/Nov 2007

9. Which of the following is a value-added service offered on the NFS network, allowing customers to deposit cash into their accounts using another bank's ATM/CDM?
(A) Card-to-Card Fund Transfer (C2C)
(B) Mobile Banking Registration (MBR)
(C) Interoperable Cash Deposit (ICD)
(D) Cheque Book Request (CBR)

Ans :

(C) Interoperable Cash Deposit (ICD)

May/June 2023

36. What is a Bharat Bill Payment Operating Unit (BBPOU)?
(A) The central server infrastructure of the BBPS network.
(B) An entity, which can be a bank or a non-bank, authorized by the RBI to participate in BBPS.
(C) A mobile application used by customers to pay their bills.
(D) The end-user or customer who makes the bill payment.

Ans :

(B) An entity, which can be a bank or a non-bank, authorized by the RBI to participate in BBPS.
A Bharat Bill Payment Operating Unit (BBPOU) is an entity that has received authorization from the Reserve Bank of India to operate within the BBPS. These entities can be either banks or non-bank institutions. They are the primary touchpoints that connect either to the billers (Biller OU) or to the customers (Customer OU), or both.

Oct/Nov 2018

37. Bharat QR is a P2M (Person to Merchant) mobile payment solution mutually derived by which group of payment networks?
(A) NPCI, American Express, and Diners Club
(B) Visa, MasterCard, and American Express
(C) NPCI, RuPay, and Discover
(D) NPCI, Visa, and MasterCard

Ans :

(D) NPCI, Visa, and MasterCard
Bharat QR was developed as an interoperable and common QR code standard for merchant payments. It is a collaborative effort and was mutually derived by the three major payment networks operating in India: the National Payments Corporation of India (NPCI), Visa, and MasterCard. This collaboration ensures wider acceptance and a uniform experience for users.

May/June 2007

38. What is a key advantage of Bharat QR over other QR codes?
(A) It contains additional data elements like merchant name, address, and bank information.
(B) It can only be used by RuPay cardholders.
(C) It works without an internet connection.
(D) It is a dynamic QR code that changes for every transaction.

Ans :

(A) It contains additional data elements like merchant name, address, and bank information.
A significant advantage of the Bharat QR standard is its ability to embed additional data elements directly into the QR code. This includes information such as the merchant's name, address, and their bank details. This makes the transaction more secure and verifiable for the customer, as they can confirm the merchant's identity before making the payment.

Oct/Nov 2025

39. Which benefit of the RuPay card scheme is a direct result of its transaction processing occurring domestically?
(A) Customized product offering
(B) Inter-operability between payment channels
(C) Lower cost and affordability
(D) Protection of information related to Indian consumers

Ans :

(C) Lower cost and affordability
Since RuPay transaction processing happens domestically, it leads to a lower cost of clearing and settlement for each transaction. This reduction in operational costs makes the overall transaction more affordable. This is a key differentiator from international card schemes where processing might occur outside the country, potentially incurring higher charges.

May/June 2012

40. The term "RuPay" is a coinage of which two words?
(A) Rupee and Payment
(B) Rupee and Paycheck
(C) Rural and Payment
(D) Rupiah and Pay

Ans :

(A) Rupee and Payment
The brand name "RuPay" was created to give it a sense of nationality and connect it to India. The word itself is a combination, or coinage, of two separate terms: "Rupee," which is the Indian currency, and "Payment." This name effectively communicates its identity as India's domestic card payment scheme.

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accessible 24 × 7 throughout the year, including on bank holidays. This provides a robust, real-time fund transfer capability for retail customers across multiple channels like mobile and internet banking.

May/June 2010

14. IMPS is built upon the existing network of which NPCI product?
(A) Cheque Truncation System (CTS)
(B) National Automated Clearing House (NACH)
(C) Bharat Bill Payment System (BBPS)
(D) National Financial Switch (NFS)

Ans :

(D) National Financial Switch (NFS)
The IMPS service, while being a distinct payment system, is technically built upon the robust and extensive infrastructure of the National Financial Switch (NFS) network. The NFS network, which connects the ATMs of various banks, provides the underlying connectivity and switching capability that enables the instant inter-bank transactions characteristic of the IMPS platform.

Oct/Nov 2024

15. What is the eligibility criterion for a bank or a Prepaid Payment Instrument (PPI) issuer to participate in IMPS?
(A) It must have a valid banking or prepaid payment instrument license from the Reserve Bank of India.
(B) It must be a public sector bank with a minimum of 1,000 branches.
(C) It must be a member of the Indian Banks' Association for at least five years.
(D) It must have its headquarters located in a metropolitan city.

Ans :

(A) It must have a valid banking or prepaid payment instrument license from the Reserve Bank of India.
The primary eligibility requirement for any entity, be it a bank or a Prepaid Payment Instrument (PPI) issuer, to join the IMPS network is straightforward. The entity must possess a valid banking license or a prepaid payment instrument license, as applicable, issued by the Reserve Bank of India (RBI), which is the regulatory authority for payment systems.

May/June 2017

16. Which of the following is NOT listed as an objective of the Immediate Payment System (IMPS)?
(A) To enable customers to use mobile devices for accessing bank accounts and remitting funds.
(B) To replace RTGS for all high-value corporate transactions.
(C) To make payments simpler using just the mobile number of the beneficiary.
(D) To serve the RBI's goal of digitizing retail payments.

Ans :

(B) To replace RTGS for all high-value corporate transactions.
The objectives of IMPS focus on digitizing retail payments, enabling mobile-based banking, simplifying payments using mobile numbers, and creating a foundation for mobile banking services. It is not intended to replace RTGS, which is a separate system specifically designed for high-value, real-time gross settlements, whereas IMPS is primarily for retail, real-time net settlements.

Oct/Nov 2005

17. For IMPS registration, what is the 7-digit code that a customer receives from the bank?
(A) Unified Payment Identifier (UPI)
(B) Mobile Money Identifier (MMID)
(C) Personal Identification Number (PIN)
(D) Aadhaar Payment Bridge (APB) code

Ans :

(B) Mobile Money Identifier (MMID)
To register for IMPS through the mobile banking channel, a customer needs to obtain a Mobile Money Identifier (MMID) from their bank. The MMID is a unique 7-digit code that is linked to a specific bank account. This code, in conjunction with the customer's mobile number, is used to identify the beneficiary's account for fund transfers.

May/June 2020

18. A customer, Priya, wants to send money via IMPS to her friend, Rohan. Priya is registered for mobile banking. However, Rohan has not registered his mobile number for mobile banking with his bank. How can Priya still transfer the funds to Rohan using IMPS?

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(A) Priya can transfer the funds using Rohan's beneficiary account number and IFS code.
(B) Priya cannot transfer the funds as the beneficiary must be registered for mobile banking.
(C) Priya can transfer the funds using Rohan's Aadhaar number and MMID.
(D) Priya must use the USSD service 99# as it does not require beneficiary registration.

Ans :

(A) Priya can transfer the funds using Rohan's beneficiary account number and IFS code.
The IMPS system is designed for flexibility. Even if a beneficiary's mobile number is not registered with any bank account, a fund transfer is still possible. The remitter can initiate the transaction by using the beneficiary's bank account number and the corresponding IFSC (Indian Financial System Code), which directly credits the specified account without needing an MMID.

Oct/Nov 2015

19. What are the authentication credentials required for an IMPS transaction initiated through an ATM channel?
(A) Mobile number and MPIN
(B) User ID and Internet Banking Password
(C) A valid Card and ATM PIN
(D) Virtual Payment Address and UPI PIN

Ans :

(C) A valid Card and ATM PIN
The authentication method for IMPS transactions varies depending on the channel used. For transactions initiated from an ATM, the remitting customer is authenticated using the standard ATM security protocol. This involves using a valid debit or credit card and entering the corresponding confidential ATM PIN (Personal Identification Number) to authorize the fund transfer.

May/June 2013

20. Under what circumstance is mobile banking registration NOT mandatory for a remitting customer in an IMPS transaction?
(A) When transferring funds using the beneficiary's mobile number and MMID.
(B) When the transaction amount is below ₹1,000.
(C) Mobile banking registration is always mandatory for the remitter in IMPS.
(D) When initiating the transaction using either an ATM or an Internet banking channel.

Ans :

(D) When initiating the transaction using either an ATM or an Internet banking channel.
While mobile banking registration is necessary for IMPS transactions initiated via a mobile banking app, it is not a mandatory requirement for the remitting customer if they choose other channels. The text explicitly states that a remitter can initiate an IMPS transaction using an ATM or Internet banking channel without being registered for mobile banking.

Oct/Nov 2021

21. What is a key function of Unified Payments Interface (UPI) that merges several banking features into a single mobile application?
(A) It is exclusively used for clearing high-value cheques electronically.
(B) It facilitates only international remittances through partner banks.
(C) It powers multiple bank accounts into a single mobile application.
(D) It replaces the need for debit cards by issuing a physical UPI card.

Ans :

(C) It powers multiple bank accounts into a single mobile application.
The core concept of Unified Payments Interface (UPI) is its ability to power multiple bank accounts into a single mobile application of any participating bank. This feature allows users to access and manage different bank accounts, perform fund transfers, and make merchant payments seamlessly from one integrated platform, simplifying the digital banking experience significantly.

May/June 2024

22. UPI caters to a "Peer to Peer" collect request. What does this functionality allow a user to do?
(A) To push funds to multiple beneficiaries simultaneously.
(B) To initiate a request for pulling funds from an intended remitter.
(C) To dispute a transaction directly with the merchant's bank.
(D) To schedule a payment that cannot be declined by the payer.

NODIA

Ans :

(B) To initiate a request for pulling funds from an intended remitter.
The "Peer to Peer" collect request is a distinctive feature of UPI. It allows a user (payee) to initiate a payment request, effectively "pulling" funds from another individual (payer or remitter). The payer receives a notification for this request and can choose to either approve and authorize the payment or decline it, providing a convenient way to ask for money.

Oct/Nov 2008

23. Who are the main stakeholders/participants in the UPI system?
(A) Only Banks and NPCI
(B) Only Account holders and Merchants
(C) Only Payment Service Providers (PSP) and NPCI
(D) Account holders, Merchants, Payment Service Providers (PSP), Banks, and NPCI

Ans :

(D) Account holders, Merchants, Payment Service Providers (PSP), Banks, and NPCI
The UPI ecosystem involves multiple participants working together to facilitate transactions. The main stakeholders include the end-users (Bank account holders), businesses accepting payments (Merchants), technology companies providing the UPI app (Payment Service Providers or PSPs), the financial institutions holding the accounts (Banks), and the central operator of the system (NPCI).

May/June 2006

24. For a customer to register for UPI, which of the following is a mandatory prerequisite?
(A) The mobile number to be registered must be linked to the bank account for SMS Alerts.
(B) The customer must have a credit card from the same bank.
(C) The customer must first register for the IMPS service.
(D) The customer must have an active Post Office savings account.

Ans :

(A) The mobile number to be registered must be linked to the bank account for SMS Alerts.
A critical prerequisite for UPI registration is that the mobile number the customer intends to use for UPI must already be registered with their bank for receiving SMS alerts or mobile alerts. This linkage is essential for the device binding and security verification process that occurs during the initial setup of the UPI application on the customer's smartphone.

Oct/Nov 2017

25. Which of the following is an example of a non-financial transaction that can be performed using a UPI application?
(A) Sending money to a beneficiary using a Virtual ID.
(B) Paying a utility bill by scanning a QR code.
(C) Checking the status of a past transaction.
(D) Accepting a collect request from a friend.

Ans :

(C) Checking the status of a past transaction.
UPI applications support both financial and non-financial transactions. Financial transactions involve the actual movement of funds, such as sending money or paying bills. Non-financial transactions are service-related requests that do not involve fund movement. Checking transaction status, setting or changing a PIN, and raising a dispute are all examples of non-financial transactions.

May/June 2008

26. What information is required to generate a UPI PIN for the first time?
(A) Full debit card number, CVV, and mobile number
(B) OTP, last six digits of the debit card, and its expiry date
(C) Account number, IFSC, and a pre-set password
(D) Virtual ID, name, and the OTP received via email

Ans :

(B) OTP, last six digits of the debit card, and its expiry date
The UPI registration process requires specific information to set up a UPI PIN for a linked bank account. The user needs three pieces of information: the One Time Password (OTP) sent by the bank, the last six digits of the associated debit card number, and the expiry date of that debit card.

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offering them a small line of credit to meet urgent financial needs without any complex procedures.

May/June 2011

46. What does the acronym JAM stand for in the context of India's subsidy delivery mechanism?
(A) Joint Account Management
(B) Jan Dhan, Aadhaar, and Mobile Number
(C) Judicial and Administrative Mission
(D) Jeevan, Arogya, and Mudra

Ans :

(B) Jan Dhan, Aadhaar, and Mobile Number
JAM is an acronym that represents the powerful trinity of Jan Dhan Yojana, Aadhaar, and Mobile Number. The government employs this three-pronged approach to reform its subsidy delivery system. Jan Dhan provides the bank account, Aadhaar provides the unique biometric identity, and Mobile allows for direct communication and transaction alerts, enabling direct benefit transfers.

Oct/Nov 2012

47. How is uniqueness achieved for the 12-digit Aadhaar number issued by UIDAI?
(A) By assigning numbers based on the individual's state of residence.
(B) Through the process of demographic and biometric de-duplication.
(C) By using a complex algorithm based on the person's date of birth.
(D) By linking the number to the individual's Permanent Account Number (PAN).

Ans :

(B) Through the process of demographic and biometric de-duplication.
The uniqueness of each Aadhaar number is ensured through a rigorous de-duplication process. When an individual enrolls, their demographic information (like name and address) and biometric information (fingerprints and iris scans) are compared against the entire UIDAI database. This process verifies that the person is not already enrolled, thereby preventing duplicate entries.

May/June 2015

48. What is the primary task of the Bharat Broadband Network Limited (BBNL)?
(A) To develop India's National Optical Fiber Network (NOFN) to connect Gram Panchayats.
(B) To provide satellite-based internet services to urban areas.
(C) To manufacture optical fiber cables for export.
(D) To regulate tariffs for broadband services across the country.

Ans :

(A) To develop India's National Optical Fiber Network (NOFN) to connect Gram Panchayats.
Bharat Broadband Network Limited (BBNL) is a Special Purpose Vehicle established by the Government of India. Its specific mandate is to develop the National Optical Fiber Network (NOFN). The project's goal is to connect approximately 2,50,000 Gram Panchayats across the country with high-speed optical fiber, creating a robust rural digital infrastructure.

Oct/Nov 2013

49. According to its listed functions, what is the proactive role of CERT-In concerning cyber threats?
(A) It only responds to incidents after they have occurred.
(B) It is responsible for prosecuting cyber criminals.
(C) It engages in forecasting potential incidents and issuing alerts.
(D) It develops antivirus software for government computers.

Ans :

(C) It engages in forecasting potential incidents and issuing alerts.
The functions of the Indian Computer Emergency Response Team (CERT-IN) show that its role is both reactive and proactive. In addition to responding to cyber security issues, a key function is "Cyber security incident forecasting and alerts." This indicates that the agency is tasked with anticipating future threats and warning stakeholders accordingly.

May/June 2008

50. What is the relationship between a DigiLocker account and Aadhaar?
(A) A DigiLocker account is required to apply for an Aadhaar number.
(B) Aadhaar can be stored in DigiLocker, but the account is linked to the user's PAN.

NODIA

Ans :

(D) It is an app that enables simple, easy, and quick payment transactions using UPI.
Bharat Interface for Money (BHIM) is a mobile application developed to provide a simple, easy, and quick user interface for making payments. It operates on the Unified Payments Interface (UPI) platform, allowing users to make instant bank-to-bank payments and collect money using identifiers like Virtual Payment Address (VPA), mobile number, or account details.

May/June 2022

32. What is the maximum amount a user can send per transaction and per day from one bank account using the BHIM app?
(A) ₹50,000 per transaction and ₹1,00,000 per day.
(B) ₹1,00,000 per transaction and ₹1,00,000 per day.
(C) ₹2,00,000 per transaction and ₹2,00,000 per day.
(D) ₹25,000 per transaction and ₹50,000 per day.

Ans :

(B) ₹1,00,000 per transaction and ₹1,00,000 per day.
The BHIM app has specific transfer limits for transactions. A user can send up to ₹1,00,000 in a single transaction. The overall daily limit for one bank account linked on BHIM is also capped at a maximum of ₹1,00,000. These limits are applied on a per-bank-account basis within the app.

Oct/Nov 2023

33. A group of five friends dines at a restaurant, and one of them, Rahul, pays the total bill of ₹2,500 using his BHIM app. To recover the amount from his friends, which BHIM feature would be most appropriate for Rahul to use?
(A) Payment Reminders
(B) UPI Autopay
(C) Split Bill
(D) Scan & Pay

Ans :

(C) Split Bill
The 'Split Bill' feature in the BHIM app is specifically designed for situations like this. It allows a user who has made a collective payment to easily split the total amount among multiple other UPI users. Rahul can use this feature to send individual collect requests for their respective shares to his four friends simultaneously.

May/June 2016

34. The Bharat Bill Payment System (BBPS) is a conceptualized system of the RBI and is driven by which organization?
(A) Indian Banks' Association (IBA)
(B) Ministry of Finance
(C) Securities and Exchange Board of India (SEBI)
(D) National Payments Corporation of India (NPCI)

Ans :

(D) National Payments Corporation of India (NPCI)
The Bharat Bill Payment System (BBPS) is an integrated bill payment ecosystem that was conceptualized by the Reserve Bank of India (RBI). The implementation and operation of this entire system are driven by the National Payments Corporation of India (NPCI), which acts as the central infrastructure provider and standards-setter for all participants in the ecosystem.

Oct/Nov 2009

35. In the BBPS ecosystem, what is the role of the Bharat Bill Payment Central Unit (BBPCU)?
(A) It is NPCI, responsible for setting business standards, rules, and procedures for all participants.
(B) It is an agent outlet that collects bill payments in cash.
(C) It is a utility company that generates the bills for consumers.
(D) It is a bank authorized by RBI to onboard customers for bill payments.

Ans :

(A) It is NPCI, responsible for setting business standards, rules, and procedures for all participants.
Within the Bharat Bill Payment System (BBPS) framework, the National Payments Corporation of India (NPCI) itself functions as the Bharat Bill Payment Central Unit (BBPCU). In this capacity, NPCI is responsible for setting the operational and technical standards, business rules, and procedures that govern all participants, and it also undertakes clearing and settlement activities.

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Interoperable Cash Deposit (ICD) is a significant value-added service provided through the National Financial Switch (NFS). This facility allows cardholders of participating member banks to deposit cash into their accounts using the Cash Deposit Machines (CDMs) of other member banks, enhancing convenience and leveraging the shared ATM/CDM infrastructure for more than just withdrawals.

May/June 2025

10. Which service facilitates linking a customer's unique identification number to their bank account via an ATM?
(A) Aadhaar Number Seeding (ANS)
(B) Mobile Banking Registration (MBR)
(C) Statement Request (SR)
(D) Interoperable Cash Deposit (ICD)

Ans :

(A) Aadhaar Number Seeding (ANS)
The National Financial Switch (NFS) value-added services explicitly include Aadhaar Number Seeding (ANS). This service is designed to allow bank customers to link their Aadhaar number to their bank account through the ATM interface of a participating member bank, which is crucial for availing various government-sponsored Direct Benefit Transfer (DBT) schemes.

Oct/Nov 2019

11. What is the primary purpose of the National Automated Clearing House (NACH) system implemented by NPCI?
(A) To facilitate instant, low-value peer-to-peer transactions via mobile apps.
(B) To provide a settlement system exclusively for international trade payments.
(C) To manage the clearing and settlement of all credit card transactions in India.
(D) To facilitate interbank, high-volume, electronic transactions that are repetitive and periodic.

Ans :

(D) To facilitate interbank, high-volume, electronic transactions that are repetitive and periodic.
The National Automated Clearing House (NACH) is a web-based solution designed by NPCI to handle high-volume electronic transactions that are repetitive and periodic. It is used for bulk transactions such as distributing subsidies, salaries, and pensions, as well as for collecting payments for utilities, loans, and insurance premiums, consolidating multiple ECS systems into one.

May/June 2009

12. The Aadhaar Payment Bridge (APB) System, a part of NACH, plays a crucial role in which government initiative?
(A) Facilitating e-commerce payments for small businesses.
(B) Channelizing government subsidies and benefits under the Direct Benefit Transfer (DBT) scheme.
(C) Enabling cross-border remittances for non-resident Indians.
(D) Managing the settlement of transactions on the stock exchange.

Ans :

(B) Channelizing government subsidies and benefits under the Direct Benefit Transfer (DBT) scheme.
The Aadhaar Payment Bridge (APB) System is a key component of the NACH framework. It has been instrumental in the success of the government's Direct Benefit Transfer (DBT) scheme by successfully channelizing subsidies and other benefits to the intended beneficiaries. It achieves this by using the beneficiary's Aadhaar number as the primary identifier to credit their bank account.

Oct/Nov 2011

13. Which of the following statements accurately describes the Immediate Payment System (IMPS)?
(A) It is an electronic fund transfer system available only during banking hours.
(B) It is a system designed exclusively for high-value corporate fund transfers.
(C) It is an instant, inter-bank fund transfer service available 24×7, including holidays.
(D) It is managed directly by the Reserve Bank of India for cheque settlements.

Ans :

(C) It is an instant, inter-bank fund transfer service available 24×7, including holidays.
Immediate Payment System (IMPS) is defined as an instant payment inter-bank electronic funds transfer system. A key feature of IMPS is its round-the-clock availability; the service is

NODIA

Oct/Nov 2014

41. What technology does RuPay Contactless use to enable payments from devices like smartwatches and wearables without disclosing sensitive card details?
(A) Magnetic Stripe Technology
(B) Two-Factor Authentication
(C) Blockchain
(D) Tokenization

Ans :

(D) Tokenization
RuPay Contactless leverages next-generation solutions like tokenization to enhance security. Tokenization is a process that replaces sensitive card details (like the 16-digit card number) with a unique, non-sensitive equivalent called a "token." This allows cards to be securely added to devices like phones and smartwatches for payments without exposing the actual card information.

May/June 2019

42. What is the name of the e-commerce solution provided by NPCI for online transactions using RuPay Debit Cards?
(A) Bharat Ecommerce Payment Gateway (BEPG)
(B) RuPay PaySecure
(C) RuPay Online
(D) RuPay NetPay

Ans :

(B) RuPay PaySecure
"RuPay PaySecure" is the specific e-commerce solution developed by NPCI to enable online transactions and payments using RuPay Debit Cards. It provides the necessary authentication and processing platform for customers to use their RuPay cards for online shopping, creating a secure and unique experience for e-commerce transactions on the domestic card network.

Oct/Nov 2006

43. What is the stated aim of the Government of India's flagship programme, "Digital India"?
(A) To provide free smartphones to all citizens by 2025.
(B) To replace all physical currency with a central bank digital currency.
(C) To transform India into a digitally empowered society and a knowledge-based economy.
(D) To ensure all government offices become completely paperless by 2030.

Ans :

(C) To transform India into a digitally empowered society and a knowledge-based economy.
The vision of the Digital India programme is broad and transformative. Its primary aim is to transform India into a digitally empowered society and a knowledge-based economy. This is achieved by focusing on three key areas: building digital infrastructure, delivering governance and services on demand, and ensuring the digital empowerment of all citizens.

May/June 2024

44. Which of the following is NOT one of the three key vision areas of the Digital India programme?
(A) Digital Infrastructure as a basic utility to Every Citizen
(B) Governance & Services on Demand
(C) Digital Empowerment of Citizens
(D) Manufacturing of Electronics Hardware in India

Ans :

(D) Manufacturing of Electronics Hardware in India
The three key vision areas of the Digital India programme are: (1) Digital Infrastructure as a basic utility to Every Citizen, (2) Governance & Services on Demand, and (3) Digital Empowerment of Citizens. While manufacturing of electronics is related to the digital ecosystem, it is not listed as one of these three core vision pillars.

Oct/Nov 2023

45. Mr. Sharma, a qualifying account holder under the Pradhan Mantri Jan Dhan Yojana (PMJDY), faces a temporary financial crunch. What is the maximum overdraft (OD) facility he can avail from the bank under this scheme?
(A) 10,000
(B) 5,000
(C) 20,000
(D) 1,00,000

Ans :

(A) 10,000
One of the significant advantages provided to account holders under the Pradhan Mantri Jan Dhan Yojana (PMJDY) is access to credit. The scheme provides for an overdraft (OD) facility of up to ₹10,000 for qualifying account holders,

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Oct/Nov 2013

27. What is the UPI-PIN, and what is its role in transactions?

(A) It is a 12-digit code used to create a virtual ID.
(B) It is a one-time password generated for each login session.
(C) It is an alternative to the IFSC for inter-bank transfers.
(D) It is a 4- to 6-digit pass code that is mandatory to authorize all bank transactions.

Ans :

(D) It is a 4- to 6-digit pass code that is mandatory to authorize all bank transactions.
The UPI-PIN (UPI Personal Identification Number) is a 4- to 6-digit secret pass code created by the user during the first-time registration on a UPI app for a specific bank account. This PIN is a critical security feature and is mandatory for authorizing all financial transactions, such as sending money or approving a collect request.

May/June 2015

28. Anjali wants to request money from her colleague, Ben, using her bank's UPI app. She initiates a 'collect request' by entering Ben's Virtual ID and the amount. What is the immediate next step for Ben in this process?

(A) Ben receives a notification and can review the request in his UPI app to accept or decline it.
(B) The amount is automatically debited from Ben's primary UPI account.
(C) Anjali receives an SMS with a code that she must share with Ben to authorize the debit.
(D) Ben must call his bank's customer care to approve the transaction initiated by Anjali.

Ans :

(A) Ben receives a notification and can review the request in his UPI app to accept or decline it.
In a UPI pull transaction, the payer maintains full control. After the requester initiates a collect request, the payer (Ben) receives a notification on his mobile. He must then open his UPI app, review the payment request details sent by Anjali, and explicitly choose to either accept the payment by entering his UPI PIN or decline the request.

Oct/Nov 2012

29. Which UPI 2.0 feature allows a consumer to pre-authorize a transaction and block funds in their account for a debit to be initiated later?

(A) Invoice in the Inbox
(B) Signed Intent & QR
(C) One time mandate with block functionality
(D) Over-Draft (OD) account linking

Ans :

(C) One time mandate with block functionality
The "One time mandate with block functionality" is a key feature introduced in UPI 2.0. It enables users to create a mandate for a future payment, which results in the corresponding amount being blocked in their account. The funds are debited only when the payee, such as a merchant, executes the mandate at a later date.

May/June 2011

30. How does the 'Invoice in the Inbox' feature of UPI 2.0 enhance the payment experience for customers?

(A) It allows customers to check and verify an invoice from the merchant before authorizing the payment.
(B) It automatically pays all invoices received via email.
(C) It generates a PDF invoice for every UPI transaction made.
(D) It provides a digital signature for all invoices to prevent fraud.

Ans :

(A) It allows customers to check and verify an invoice from the merchant before authorizing the payment.
The 'Invoice in the Inbox' feature of UPI 2.0 adds a layer of verification for customers. It enables merchants to send a digital invoice or an attachment along with a collect request. The customer receives this within their UPI app and can review the details of the invoice before authorizing the payment, ensuring greater transparency and trust.

Oct/Nov 2020

31. What is the primary function of the Bharat Interface for Money (BHIM) app?

(A) It is an app exclusively for paying utility bills and insurance premiums.
(B) It is a standalone digital wallet that requires users to load money first.
(C) It is a platform for trading in stocks and mutual funds using a bank account.
(D) It is an app that enables simple, easy, and quick payment transactions using UPI.

NODIA

(C) There is no relationship between DigiLocker and Aadhaar.
(D) A DigiLocker account provides cloud storage space linked to the user's Aadhaar number.

Ans :

(D) A DigiLocker account provides cloud storage space linked to the user's Aadhaar number.
DigiLocker is a key initiative for paperless governance and is intrinsically linked to Aadhaar. When an individual signs up for a DigiLocker account, they receive a dedicated cloud storage space that is directly linked to their 12-digit Aadhaar (UIDAI) number. This linkage is fundamental to the system's architecture for issuing and verifying digital documents.

Oct/Nov 2017

51. Which statement correctly describes the advantage of using DigiLocker for government-issued documents?
(A) It allows users to edit and modify the details on their official documents.
(B) It provides unlimited free physical printing and delivery of stored documents.
(C) It encrypts documents so that even the user cannot view them without a special key from the government.
(D) It makes it easy to confirm the authenticity of documents as they are issued directly by registered issuers.

Ans :

(D) It makes it easy to confirm the authenticity of documents as they are issued directly by registered issuers.
A major advantage of DigiLocker is the enhanced authenticity of documents. Since official documents like driving licenses or academic certificates are pushed directly into the citizen's locker by registered issuers (e.g., Transport Department, Education Boards), their authenticity is easily verifiable. This is more reliable than relying on a scanned copy uploaded by the user.

May/June 2006

52. What service allows a user to digitally sign a self-uploaded document in their DigiLocker?
(A) eVerify
(B) eSign
(C) mSign
(D) DigiSign

Ans :

(B) eSign
For documents that are self-uploaded by the user, such as scanned copies of legacy papers, DigiLocker provides a facility to impart a verifiable digital signature. This is done using the eSign service, which functions similarly to self-attestation. The eSign service authenticates the user, typically via Aadhaar e-KYC, to apply their electronic signature to the document.

Oct/Nov 2008

53. How does the eSign service authenticate a user to allow them to sign a document digitally?
(A) By using the user's email and password.
(B) By verifying the user's PAN card against the Income Tax database.
(C) By authenticating the Aadhaar holder via the Aadhaar e-KYC service.
(D) By sending a physical verification code to the user's registered address.

Ans :

(C) By authenticating the Aadhaar holder via the Aadhaar e-KYC service.
The eSign service is designed to be a seamless and quick way to apply a digital signature. The online electronic signature process is made possible by authenticating the identity of the Aadhaar holder. This is accomplished through the Aadhaar e-KYC (Electronic Know Your Customer) service, which validates the user's credentials before the signature is applied.

May/June 2024

54. A government department needs to procure standard office supplies like stationery and furniture. Instead of using traditional tenders, which digital platform launched by the government provides a one-stop-shop for this purpose, offering facilities like direct purchase and e-bidding?
(A) DigiLocker
(B) MeghRaj
(C) Bharat Bill Payment System (BBPS)
(D) Government e Marketplace (GeM)

Ans :

(D) Government e Marketplace (GeM)
The Government e Marketplace (GeM) is the designated online platform for the procurement of common-use goods and services required by

Consequently, banks must develop a robust online delivery system strategy to broaden their customer relationships and, most importantly, to retain customer loyalty in a competitive market.

May/June 2010

24. What potential negative effect on relationship banking is associated with offering almost every banking service online?
(A) Increased operational costs
(B) Slower transaction speeds
(C) Depersonalization
(D) Reduced service availability

Ans :

(C) Depersonalization
While online services offer convenience, they can have a negative effect on relationship banking through depersonalization. Offering almost every service online significantly reduces personal interaction between customers and bank staff. This diminishes the personal element in the services, which is a vital aspect of any service industry, as technology can never fully substitute a simple smile or warm handshake.

Oct/Nov 2005

25. A new, small bank with no legacy IT infrastructure and a limited branch network enters a market dominated by large, established banks. The new bank heavily invests in state-of-the-art digital platforms from its inception. How does technology primarily assist this new bank in competing effectively?
(A) By allowing it to build a large network of physical branches quickly.
(B) By restricting its services to corporate clients only, avoiding retail competition.
(C) By helping it to have a level playing field for pricing its products.
(D) By enabling it to acquire the legacy systems of the established banks.

Ans :

(C) By helping it to have a level playing field for pricing its products.
Technology creates a level playing field, especially for new and small banks. By starting with modern, digitized products and state-of-the-art technologies, these banks can compete effectively with established players, irrespective of their size. This allows them to overcome the disadvantage of a limited branch network and offer competitively priced products to attract and retain customers.

May/June 2017

26. The advent of IT is said to "democratize information." What does this mean in the context of banking?
(A) Only banks have access to real-time financial information through their proprietary and highly secure internal networks.
(B) Bank customers, especially corporate ones, gain access to the same real-time information that banks once controlled.
(C) Information is available only to regulatory authorities to ensure transparency and prevent systemic risks in the market.
(D) Information access is restricted to promote less competition among banks and maintain stable profit margins for the industry.

Ans :

(B) Bank customers, especially corporate ones, gain access to the same real-time information that banks once controlled.
The democratization of information means that access to information is more widespread. In banking, this implies that customers, particularly corporate clients, can now access the same real-time financial information over which banks previously had exclusive control. This shift in information access leads to greater competition among banks as customers become more informed and can compare offerings easily.

Oct/Nov 2015

27. Based on the provided text, what is the primary objective of the EASE program?
(A) To increase the number of physical branches of Public Sector Banks.
(B) To merge all Public Sector Banks into a single entity.
(C) To foster new-age reforms in PSBs using digitization to improve key performance areas.
(D) To exclusively focus on agricultural lending and ignore digital capabilities.

Ans :

(C) To foster new-age reforms in PSBs using digitization to improve key performance areas.
The EASE program, driven by the IBA, emphasizes data analytics, automation, and digitization. Its purpose is to foster new-age

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strategic initiatives. These pillars are Integrity, Inclusion, Innovation, Institutionalisation, and Internationalisation. While affordability is a desired attribute of the payment systems, it is an outcome of the vision rather than one of the five foundational pillars themselves.

May/June 2017

60. What is the targeted outcome for the volume of cheque-based payments as a percentage of total retail payments under Payments Vision 2025?
(A) To be less than 1% of total retail payments.
(B) To be less than 0.25% of total retail payments.
(C) To be less than 0.5% of total retail payments.
(D) To be completely eliminated.

Ans :

(B) To be less than 0.25% of total retail payments. One of the specific, measurable outcomes targeted by the Payments Vision 2025 is a significant reduction in paper-based clearing instruments. The vision aims to decrease the volume of cheque-based payments to a level where they constitute less than 0.25% of the total volume of retail payments, reflecting a massive shift towards digital payment modes.

NODIA

to the RBI accurately and without any manual intervention.

May/June 2018

16. What is a key capability of a Decision Support System (DSS) that aids management in decision-making?
(A) It automatically executes transactions based on pre-set rules.
(B) It allows for the creation of simulations to test "what-if" situations.
(C) It primarily generates statutory and control returns for regulators.
(D) It restricts access to data to ensure maximum security and confidentiality.

Ans :

(B) It allows for the creation of simulations to test "what-if" situations.
Decision Support Systems (DSS) are interactive computer-based systems designed to facilitate decision-making. A key feature is their ability to create simulations under various conditions. They provide tools that allow management to test "what-if" scenarios, which helps in pre-testing the potential outcomes of different decisions, such as assessing the impact of a change in CRR/SLR requirements.

Oct/Nov 2007

17. Which of the following is NOT mentioned as a fee-based service that banks are venturing into to find new sources of revenue?
(A) Marketing of insurance and annuity sales
(B) Offering legal advisory services
(C) Providing trusteeship services
(D) Financial planning for customers

Ans :

(B) Offering legal advisory services
To differentiate themselves and tap new revenue sources, banks are increasingly venturing into various fee-based services. The text mentions marketing of insurance and annuity sales, mutual funds, financial planning, and trusteeship services as examples of these activities. However, providing legal advisory services is not listed among these new ventures for generating fee-based income.

May/June 2014

18. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R).
Assertion (A): The future of the financial services industry is perceived to be heavily dependent on the electronic delivery mechanism.
Reason (R): Globally, commercial banks are among the largest consumers of information technology and are working towards bringing banking into their customers' homes.
In the context of the two statements, which of the following is correct?
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
The assertion that the financial industry's future depends on electronic delivery is correct. The reason provided is also true, as banks are major consumers of IT and aim to make services accessible from home. The reason correctly explains the assertion because the heavy investment and focus on IT by banks are precisely what drives the dependency on electronic delivery.

Oct/Nov 2019

19. How has technology contributed to the globalisation of banking services?
(A) By encouraging large banks to shift their focus from domestic markets to the global arena
(B) By restricting banks to operate only within their domestic markets
(C) By making it mandatory for all banks to open branches in foreign countries
(D) By reducing the need for globally oriented products and services

Ans :

(A) By encouraging large banks to shift their focus from domestic markets to the global arena
Another significant impact of technology on banking is the globalisation of services. Technology has enabled large banks to expand their focus beyond their domestic markets and pursue global expansion. This involves a strategic shift towards emphasizing products and services that are oriented towards a global customer base,

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May/June 2023

4. How has the approach of banks towards customer targeting evolved with the use of modern technology?

(A) Banks have shifted from lifestyle-based targeting to purely demographic-based targeting

(B) Banks now exclusively target senior citizens due to their higher savings

(C) Banks have stopped targeted marketing and now offer uniform products to all customers

(D) Banks have moved from targeting demographic clusters to targeting customers based on lifestyles, mindsets, and aspirations

Ans :

(D) Banks have moved from targeting demographic clusters to targeting customers based on lifestyles, mindsets, and aspirations

Previously, banks developed products targeting demographic-based clusters like young people or seniors. Now, with the aid of CRM tools, Data Analytics, and Artificial Intelligence, banks can target customers based on their specific lifestyles, mindsets, and aspirations. This modern approach leads to a higher degree of innovative personalization in product and service offerings for customers.

Oct/Nov 2018

5. The trend towards home banking and a cashless society is being led by a concept that fully exploits technological innovations in communications. What is this concept called?

(A) Branch Banking

(B) Tele-banking

(C) Cyberbanking

(D) Universal Banking

Ans :

(C) Cyberbanking

The current trend in banking is moving towards home banking, which aims to fully exploit technological innovations in the field of communications. This evolution is encapsulated in the concept of cyberbanking. As customers gain fingertip access to their accounts worldwide, cyberbanking is progressively leading the financial system towards becoming a cashless society through digital transactions.

NODIA

May/June 2007

6. Which statement correctly distinguishes between the primary applications of e-mail and Electronic Data Interchange (EDI) in business communications?

(A) E-mail is for structured messages, while EDI is for unstructured free format messages.

(B) E-mail is used for sending unstructured free format messages, while EDI is for transmitting structured and formatted messages.

(C) E-mail is for transmitting structured and formatted messages, while EDI is for unstructured messages.

(D) Both e-mail and EDI are used exclusively for sending unstructured free format messages.

Ans :

(B) E-mail is used for sending unstructured free format messages, while EDI is for transmitting structured and formatted messages.

In the context of business systems, e-mail has found its application in sending unstructured, free-format messages. In contrast, the newer concept of Electronic Data Interchange (EDI) specifically refers to the transmission of structured and formatted messages. This structured nature of EDI allows for further analysis and direct use in various business applications without manual re-keying.

Oct/Nov 2025

7. What is the definition of Electronic Data Interchange (EDI)?

(A) The internal exchange of emails within a single organization for decision support.

(B) The process of converting paper documents into digital images for archival purposes.

(C) A system for transferring unstructured data between individuals using personal computers and modems.

(D) The inter-organisational exchange of standard formatted business documentation that can be processed by computers.

Ans :

(D) The inter-organisational exchange of standard formatted business documentation that can be processed by computers.

Electronic Data Interchange (EDI) is defined as the inter-organisational exchange of business documentation. A key feature of EDI is that the data is in a standard, formatted structure, allowing

it to be processed directly by the computer application systems of trading partners. This process involves minimal manual intervention, enhancing efficiency and reducing errors in business communication.

May/June 2012

8. In the banking sector, what is a prominent example of a system that uses Electronic Data Interchange (EDI)?
(A) The SWIFT messaging system
(B) The internal MIS reporting system
(C) The corporate website's customer feedback form
(D) The employee payroll processing system

Ans :

(A) The SWIFT messaging system
Banks have been actively using Electronic Data Interchange (EDI) for various functions to streamline their operations. A primary example of this application in the banking industry is the use of SWIFT (Society for Worldwide Interbank Financial Telecommunication) messages. These messages are structured and formatted, enabling secure and standardized communication between financial institutions across the globe.

Oct/Nov 2016

9. What is the universal set of standards and guidelines for communication by Electronic Data Interchange (EDI) known as?
(A) ISO 9001
(B) SWIFT
(C) EDIFACT
(D) EFT

Ans :

(C) EDIFACT
To ensure that information exchanged via EDI is readable and understandable by computer systems without human interpretation, a universal set of standards is required. This universal standard is known as EDIFACT, which stands for Electronic Data Interchange for Administration, Commerce and Transport. It provides the necessary guidelines for formatting data for electronic communication across industries.

May/June 2019

10. Consider the following statements regarding EDI communication standards:
Statement I: EDI guidelines, known as communication standards, address the type of electronic envelope to be used.
Statement II: These standards also specify acceptable time slots during the day for sending and receiving messages.
Which of the above statements is/are correct?
(A) Only Statement I
(B) Only Statement II
(C) Both Statement I and Statement II
(D) Neither Statement I nor Statement II

Ans :

(C) Both Statement I and Statement II
EDI communication standards are comprehensive guidelines that govern the technical aspects of data transmission. They address specifications such as the type of electronic envelope to be used for packaging the data. Furthermore, these standards cover operational details like transmission speed, protocols, and even designate specific time slots that are acceptable for message exchange between partners.

Oct/Nov 2006

11. Match the uses of a corporate website (List-I) with their correct descriptions (List-II).
List-I (Website Use)
P. Dissemination of information
Q. A node for commerce
R. Account services
S. Highlighting non-banking activities
List-II (Description)
1. Offering internet banking for balance enquiry and bill payments.
2. Providing details of charitable endeavours or sponsored events.
3. Displaying financial statements and descriptions of loan products.
4. Hosting virtual shopping malls, like Barclaycard in the UK.
(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2
A bank's corporate website serves multiple purposes. It is used for disseminating information such as product descriptions (P-3). It can act as a node for commerce by running virtual shopping

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malls (Q-4). It provides crucial account services like internet banking transactions (R-1), and also highlights non-banking activities like community aid or sponsorships (S-2).

May/June 2016

12. What is the key element in any Management Information System (MIS)?

(A) The collection of raw, unprocessed data
(B) The reduction of data redundancy through hardware upgrades
(C) The generation of financial statements for regulatory bodies
(D) The transformation of data into meaningful and timely information

Ans :

(D) The transformation of data into meaningful and timely information
The concept of a Management Information System (MIS) places a strong emphasis on the availability of data and the ease of its analysis for decision-making. Therefore, the key element of any MIS is the effective transformation of raw data into meaningful information. The timeliness of this information is also a significant factor, as outdated information loses its significance for management.

Oct/Nov 2010

13. Which of the following are advantages offered by computer-based information systems in banks?

1. Data is consistent, leading to more accurate and relevant information for decision-making.
2. Data redundancy is minimized, which reduces the labor involved in data reporting.
3. The systems are highly rigid and cannot be modified to match changing requirements.

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(A) 1 and 2 only
Computer-based information systems provide several key advantages. They ensure data consistency, which enhances the accuracy and relevance of processed information used for making decisions. Additionally, these systems are designed to minimize data redundancy, thereby reducing the manual labor required for data reporting tasks. They are also flexible and can be modified to meet changing requirements.

May/June 2005

14. What is the primary use of e-mail within a banking organization?

(A) For processing high-value financial transactions
(B) For creating structured reports for regulatory submission
(C) For providing interactive financial advice to customers
(D) For correspondence between departments and offices and transmitting data files

Ans :

(D) For correspondence between departments and offices and transmitting data files
Within banks, e-mail serves as a crucial tool for communication, dramatically reducing the time taken compared to previous physical delivery methods. Its primary function is to facilitate correspondence between various departments and offices. In addition to transmitting unstructured messages, banks also utilize the e-mail facility to transmit important data files efficiently across the organization.

Oct/Nov 2022

15. What is the purpose of the Automated Data Flow (ADF) project initiated by the Reserve Bank of India (RBI)?

(A) To ensure the submission of correct and consistent data from banks to RBI without manual intervention
(B) To automate the process of opening new bank accounts for customers
(C) To provide customers with automated financial advice through bank websites
(D) To facilitate automated clearing of cheques between member banks

Ans :

(A) To ensure the submission of correct and consistent data from banks to RBI without manual intervention
The Reserve Bank of India relies heavily on the data submitted by banks, making data quality of great importance. To address the need for correct and consistent data, the RBI initiated the Automated Data Flow (ADF) project. This system is designed to ensure that data flows from banks

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government departments, organizations, and public sector units. It is designed to enhance transparency and efficiency, offering facilities like direct purchase for small value items, e-bidding, and reverse e-auctions for larger procurements.

Oct/Nov 2021

55. In 2016, the Government e Marketplace (GeM) replaced which long-standing government procurement body?
(A) The Directorate General of Supplies and Disposals (DGS&D)
(B) The Bureau of Indian Standards (BIS)
(C) The Planning Commission
(D) The National Informatics Centre (NIC)

Ans :

(A) The Directorate General of Supplies and Disposals (DGS&D)
GeM was introduced as a modern, technology-driven alternative to the traditional public procurement system. It took the position of the Directorate General of Supplies and Disposals (DGS&D) in 2016, which was the central procurement agency for the Government of India for many decades. GeM's establishment marked a shift towards a cashless and paperless procurement ecosystem.

May/June 2013

56. Which feature of the Government e Marketplace (GeM) helps a buyer assess the performance and reliability of a seller?
(A) Easy Return policy
(B) Continuous vendor rating system
(C) Transparent and ease of buying
(D) Search, Compare, Select and Buy facility

Ans :

(B) Continuous vendor rating system
The "Continuous vendor rating system" is a crucial feature for buyers on the GeM portal. This system allows buyers to evaluate and choose sellers based on their past performance, adherence to delivery timelines, product quality, and other service parameters. It introduces accountability for sellers and helps buyers make more informed purchasing decisions.

Oct/Nov 2015

57. What is "MeghRaj" in the context of Government of India's digital initiatives?
(A) A weather forecasting supercomputer.
(B) The brand name for India's national satellite program.
(C) A cybersecurity framework to protect government websites.
(D) The name given to the Government's "GI Cloud" initiative for cloud computing.

Ans :

(D) The name given to the Government's "GI Cloud" initiative for cloud computing.
"MeghRaj" is the name given to the Government of India's ambitious cloud computing initiative, also known as "GI Cloud." The program aims to accelerate the delivery of e-services to citizens while optimizing the government's Information and Communication Technology (ICT) expenditure by leveraging the benefits of cloud infrastructure, such as shared resources and rapid scalability.

May/June 2020

58. What is the core theme of the RBI's "Payments Vision 2025" document?
(A) 'E-Payments for Everyone, Everywhere, Everytime' (4Es)
(B) 'Less-Cash India, More-Digital India'
(C) 'Global Leader in Digital Payments'
(D) 'Secure, Swift and Smart Payments'

Ans :

(A) 'E-Payments for Everyone, Everywhere, Everytime' (4Es)
The Reserve Bank of India's "Payments Vision 2025" document is built around a central theme. This core theme is 'E-Payments for Everyone, Everywhere, Everytime', abbreviated as the 4Es. This theme encapsulates the goal of providing every user with e-payment options that are safe, secure, fast, convenient, accessible, and affordable.

Oct/Nov 2005

59. Which of the following is NOT one of the five main pillars of the Payments Vision 2025?
(A) Integrity
(B) Inclusion
(C) Affordability
(D) Innovation

Ans :

(C) Affordability
The Payments Vision 2025 document is structured across five main pillars that guide its

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rather than being confined to a local or national scope.

May/June 2025

20. What has been a direct impact of information technology on the hierarchical structure within banks?

(A) An increase in the number of hierarchical tiers to improve control
(B) The elimination of the top management layer
(C) A reduction in the hierarchical tier systems
(D) The strengthening of the middle management's role

Ans :

(C) A reduction in the hierarchical tier systems
The implementation of information technology has a direct impact on the organisational structure of banks. Specifically, the need for faster information flow and better control mechanisms has led to a reduction in the traditional hierarchical tier systems. This flattening of the structure establishes a more direct liaison between the top management and the field functionaries.

Oct/Nov 2011

21. What happens to the middle tiers of management as technology helps to collect, interpret, and transmit information more efficiently?

(A) Their role is strengthened as they control information flow.
(B) They are retrained to become top management executives.
(C) They are given more administrative and clerical tasks.
(D) Their need vanishes as more self-managing groups emerge.

Ans :

(D) Their need vanishes as more self-managing groups emerge.
As technology streamlines the processes of collecting, interpreting, and transmitting information, the traditional role of middle management as information conduits diminishes. Consequently, the need for these middle tiers of management vanishes. In their place, more self-managing groups emerge, which have the autonomy and direct access to information needed to perform their functions effectively.

May/June 2009

22. Consider the following statements about emerging payment technologies:
Statement I: New generations of more sophisticated EMV and NFC cards are currently being developed and tested.
Statement II: Cryptocurrencies and alternative forms of e-cash are emerging, which require a traditional paper-oriented payments system.
Which of the above statements is/are correct?

(A) Only Statement I
(B) Only Statement II
(C) Both Statement I and Statement II
(D) Neither Statement I nor Statement II

Ans :

(A) Only Statement I
Statement I is correct as technologies are being developed for more advanced EMV and NFC cards, alongside services via mobiles and wearables. Statement II is incorrect because emerging cryptocurrencies and e-cash do not require a traditional paper-oriented system; in fact, they are designed to function digitally, often using technologies like smart cards to transfer value over the Internet.

Oct/Nov 2024

23. The text states that technology has helped in "commoditising" some of the financial services. What is the implication of this for banks?

(A) Banks can charge higher premium prices for their standard services, leveraging brand loyalty over product features.
(B) Banks are forced to develop a strategy for an online delivery system to retain customer loyalty.
(C) Financial services become more unique and difficult to replicate, requiring significant investment in proprietary technology.
(D) The need for an online delivery system decreases as services become standardized and can be offered through partners.

Ans :

(B) Banks are forced to develop a strategy for an online delivery system to retain customer loyalty.
The commoditisation of financial services means that many products become standardized and difficult to differentiate on features alone. This forces banks to compete on other factors, such as delivery and customer relationship.

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CHAPTER 47

Impact of Technology Adoption and Trends in Banking Technology

Oct/Nov 2014

1. What fundamental shift in the banking model is primarily driven by the adoption of new technological innovations from the customer's perspective?

(A) A shift from public sector banking to private sector banking

(B) A shift from conventional brick-mortar banks to virtual banks

(C) A shift from retail banking to corporate banking

(D) A shift from domestic banking to international banking

Ans :

(B) A shift from conventional brick-mortar banks to virtual banks

Technology has introduced new dimensions to the service delivery mechanisms of banks. Customers are increasingly experiencing a transition away from traditional physical branches, known as brick-mortar banks, towards virtual banking platforms. This change is a direct consequence of banks enthusiastically absorbing the latest technological innovations to devise new products and services for their clientele.

May/June 2021

2. Why have Indian banks been aggressively investing in digital technologies over the past few years?

(A) To promote digital banking and deliver an enhanced experience to tech-savvy customers

(B) To reduce the number of physical branches and staff

(C) To comply with international banking standards mandated by the government

(D) To exclusively focus on high-net-worth individuals and corporate clients

Ans :

(A) To promote digital banking and deliver an enhanced experience to tech-savvy customers

Indian banks are heavily investing in digital technologies to offer innovative, robust, and secure solutions. This strategic move aims to promote digital banking and is optimized to meet the expectations of a growing base of tech-savvy customers. The ultimate goal is to deliver an enhanced customer experience through channels like internet banking, digital wallets, and mobile banking.

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Oct/Nov 2009

3. The transformation of branch banking into "anytime, anywhere, anyhow banking" has been primarily enabled by which technological development?

(A) The increased number of ATMs in urban areas

(B) The introduction of stricter regulatory compliance for physical transactions

(C) The reduction in the cost of bandwidth and increased affordability of broadband internet

(D) The standardization of banking software across all public sector banks

Ans :

(C) The reduction in the cost of bandwidth and increased affordability of broadband internet

A marked shift in technology has enabled the concept of "anytime, anywhere, anyhow banking." This transformation is largely due to broadband internet becoming cheaper and more affordable for customers, along with a drastic reduction in the cost of bandwidth for leased lines, MPLS, and VSAT. This allows banks to roll out more services via mobile and internet channels.

reforms within Public Sector Banks (PSBs). The specific goals of these reforms are to improve critical areas such as profitability, asset quality, customer service, and overall digital capabilities of the banks.

May/June 2020

28. What customer desire gave rise to the concept of 'Anytime, Anywhere and Anyhow Banking'?
(A) The desire to not be restrained by the physical location of bank branches.
(B) The desire for higher interest rates on deposits.
(C) The preference for paper-based, in-person transactions for security reasons.
(D) The demand for personalized wealth management services from branch managers.

Ans :

(A) The desire to not be restrained by the physical location of bank branches.
In today's socio-economic conditions, customers no longer want to be restricted by the physical place where their funds and information are stored. They wish for banking facilities to be available at their home or business place rather than only in bank branches. This specific desire has given rise to the concept of 'Anytime, Anywhere and Anyhow Banking'.

Oct/Nov 2021

29. Which of the following is identified as an impact of Information Technology on human resources in the banking sector?
(A) A decreasing demand for specialised personnel in IT management.
(B) A low turnover rate of computer-skilled manpower.
(C) An ever-increasing demand for specialised personnel in the fields of IT management.
(D) A reduction in the need for banks to formulate their own manpower policies.

Ans :

(C) An ever-increasing demand for specialised personnel in the fields of IT management.
The increased use of information technology in banking has led to a corresponding and ever-increasing demand for specialised personnel, particularly in the fields of IT management. This is a direct consequence of technology's role in enhancing productivity and creating innovative products. Banks need these specialists to manage and leverage the new technological systems effectively for success.

May/June 2013

30. A significant impact of IT on human resources in banking is the high turnover rate of a specific group of employees. Which group is this?
(A) Computer-skilled manpower
(B) Senior management executives
(C) Front-line branch tellers
(D) Administrative support staff

Ans :

(A) Computer-skilled manpower
One of the notable impacts of information technology on human resources within banks is the high turnover rate of computer-skilled manpower. These professionals are in high demand across various industries, leading to increased mobility. This situation necessitates that banks formulate specific manpower policies aimed at retaining these valuable and skilled professionals within their organisations to ensure operational continuity.

Oct/Nov 2008

31. Which of the following statements accurately describe the role transitions caused by the application of IT in banks?
1. Job profiles and role definitions undergo a complete transformation.
2. Decision-making powers shift to the point of information.
3. The need for technically literate and managerially competent persons decreases.

(A) 1 and 3 only
(B) 2 and 3 only
(C) 1 and 2 only
(D) 1, 2 and 3

Ans :

(C) 1 and 2 only
The application of IT acts as a self-regulating system that redefines work. This leads to a complete transformation of job profiles and role definitions. It also causes a shift in decision-making power to the point where information is generated, changing the responsibility structure. Consequently, the need for technically literate and managerially competent individuals actually increases, not decreases.

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Oct/Nov 2016

58. Which of the following is a major concern in the digital lending ecosystem that has prompted the need for regulatory initiatives?

(A) Slow decision-making processes that delay loan disbursement for urgent needs.

(B) Overly simplified compliance procedures that create loopholes for unregulated entities.

(C) A general lack of sufficient data for performing accurate credit analysis on borrowers.

(D) Unethical recovery practices and the charging of exorbitant, non-transparent interest rates.

Ans :

(D) Unethical recovery practices and the charging of exorbitant, non-transparent interest rates.

While digital lending offers many advantages, several concerns have emerged that could erode public confidence if not mitigated. These issues primarily relate to the unbridled engagement of third parties, mis-selling, data privacy breaches, unfair business conduct, the charging of exorbitant interest rates, and the use of unethical recovery practices by some players.

May/June 2014

59. A digital lending app, acting as a Lending Service Provider (LSP), facilitates a loan for a customer from an NBFC. The loan amount is first transferred from the NBFC to the LSP's pool account and then disbursed to the borrower. Which recent RBI guideline for digital lending is violated in this scenario?

(A) The guideline that all disbursals must be executed directly between the RE's and borrower's bank accounts.

(B) The guideline requiring lenders to provide a standardized Key Fact Statement (KFS) before loan execution.

(C) The guideline prohibiting automatic increases in credit limits without explicit customer consent.

(D) The guideline requiring a cooling-off period for the borrower to exit the loan without penalty.

Ans :

(A) The guideline that all disbursals must be executed directly between the RE's and borrower's bank accounts.

The Reserve Bank of India has issued guidelines to protect customers in the digital lending ecosystem. One major guideline requires all loan disbursals and repayments to be executed only between the bank accounts of the borrower and the Regulated Entity (RE). The use of any passthrough or pool account of the LSP or any third party is explicitly prohibited.

NODIA

Oct/Nov 2007

60. A customer takes a digital loan but realizes two days later that she does not need the funds. She repays the entire principal amount along with the proportionate Annual Percentage Rate (APR) for the two days. The lender is not permitted to charge her any prepayment penalty. What is this facility, mandated by the RBI, called?

(A) A loan restructuring period, which allows for modification of repayment terms due to financial hardship.

(B) A cooling-off/look-up period, which allows the borrower to exit the loan without penalty within a set timeframe.

(C) An interest-free period, typically offered on new credit cards for a promotional duration.

(D) A loan settlement period, a timeframe negotiated to pay off a defaulted loan for less than the full amount.

Ans :

(B) A cooling-off/look-up period, which allows the borrower to exit the loan without penalty within a set timeframe.

To enhance borrower protection, the RBI has mandated that loan contracts must include a cooling-off or look-up period. This provision allows borrowers to exit a digital loan within a specified timeframe by simply repaying the principal amount and the proportionate APR for the period the loan was active. No additional penalty can be charged by the lender.

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(C) Data can be obtained for one purpose and used for another.
(D) Data must be accurate and kept only as long as necessary.

Ans :

(D) Data must be accurate and kept only as long as necessary.
The provided text outlines several principles common to privacy laws. Among them is the principle that data held for processing must not only be accurate and up-to-date, but it also should not be kept for a period longer than is necessary for the purpose it was collected. This principle of data minimization is a fundamental aspect of privacy protection.

Oct/Nov 2012

37. According to the principles of data privacy, the collection of data on certain individual attributes should be prohibited. Which of the following is an example of such a prohibited attribute?
(A) Account balance
(B) Transaction history
(C) Religious views
(D) Contact number

Ans :

(C) Religious views
Privacy laws often stipulate that the collection of particularly sensitive personal data should be prohibited. The text provides examples of these sensitive attributes. They include details such as an individual's racial origin, political philosophy, religious views, and sex life details. Collecting such information is generally considered an excessive intrusion into an individual's privacy and is therefore restricted.

May/June 2015

38. Which of the following is an example of a security measure that banks implement to protect customer data and ensure privacy in digital channels?
(A) Data Encryption
(B) Data Publication
(C) User Anonymization
(D) Open Access Protocols

Ans :

(A) Data Encryption
With the rise of digital delivery channels, data privacy and security have become paramount. Banks implement various security measures to protect customer data. The text lists several such measures, including Data Encryption, Data Checksum, Data Leakage Prevention, Database Monitoring, and Privilege User Monitoring. Data encryption is a fundamental method used to make data unreadable to unauthorized parties.

Oct/Nov 2020

39. What is the primary emphasis of Artificial Intelligence (AI) as an area of computer science?
(A) The creation of faster computer hardware
(B) The development of more efficient data storage solutions
(C) The creation of intelligent machines and software that work and react like humans
(D) The design of graphical user interfaces for banking applications

Ans :

(C) The creation of intelligent machines and software that work and react like humans
Artificial Intelligence (AI) is a specific area of computer science that is not primarily focused on hardware or storage. Instead, its main emphasis is on the creation of intelligent machines and software. The goal is to develop systems that can work and react in ways that are similar to human intelligence, including capabilities like learning, problem-solving, and perception.

May/June 2011

40. Which of the following is identified as a key component of Artificial Intelligence (AI)?
(A) Machine learning
(B) Manual data entry
(C) Legacy system maintenance
(D) Physical document storage

Ans :

(A) Machine learning
Artificial Intelligence is a broad field with several key components that enable its functionality. The text identifies some of these core components, which include machine learning, computer vision, natural language progression, and natural language generation. Machine learning, the ability of a system to learn from data without being explicitly programmed, is a fundamental aspect of modern AI.

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May/June 2024

32. The statement "For successful integration of information technology by the banks as a business strategy, the training of staff and the continuous up-gradation of their skills is of paramount importance" highlights what critical factor?
(A) Recruiting staff exclusively from outside the banking area.
(B) Focusing training only on senior management.
(C) Establishing training institutes without involving existing staff.
(D) Staff training and continuous skill up-gradation.

Ans :

(D) Staff training and continuous skill up-gradation.
The provided text explicitly states that for banks to successfully integrate information technology as a core business strategy, a key factor is essential. This critical element is the dedicated training of staff members combined with the continuous up-gradation of their skills. This ongoing development is described as being of "paramount importance" for the successful adoption of technology.

Oct/Nov 2017

33. To fill senior specialised positions triggered by technological advancements, what recruitment approach are banks adopting?
(A) Promoting exclusively from internal junior staff
(B) Relying solely on government-deputed officers
(C) Recruiting personnel on a contractual basis
(D) Eliminating such senior positions entirely

Ans :

(C) Recruiting personnel on a contractual basis
The need for domain expertise in certain IT-related areas has led banks to adapt their recruitment strategies. For senior positions that require highly specialized knowledge, such as Chief Technology Officer (CTO), Computer Information Security Officer (CISO), and Chief Risk Officer (CRO), banks are increasingly recruiting personnel on a contractual basis from outside the traditional banking talent pool.

NODIA

May/June 2006

34. Which of the following is an example of a specialised position requiring extensive training at the systems level in a modern bank?
(A) Branch Manager
(B) Loan Officer
(C) Head Cashier
(D) Data Scientist

Ans :

(D) Data Scientist
At the systems level, extensive training is required for personnel performing highly specialised duties. The text lists several such roles that have emerged due to technology. These include Data Scientists, Data Analysts, DataBase administrators, Network administrators, Cyber Security professionals, and Ethical Hackers. These roles require deep technical expertise beyond traditional banking functions like a loan officer.

Oct/Nov 2013

35. What are the two significant dimensions of data privacy that arise from the concern over the misuse of stored data?
(A) Authority to access data and authority to use data for specified purposes only
(B) Authority to store data and authority to delete data
(C) Authority to encrypt data and authority to back up data
(D) Authority to collect data and authority to sell data

Ans :

(A) Authority to access data and authority to use data for specified purposes only
The concern over data misuse, particularly unauthorized disclosures, highlights two key dimensions of data privacy. The first is having the proper authority to access the data in the first place. The second, equally important dimension is having the authority to use that data, but only for the specific and intended purposes for which it was collected.

May/June 2008

36. Which of the following is a common principle found in privacy laws, according to the text?
(A) Data can be held indefinitely for future use.
(B) The existence of personal data systems can be kept secret from individuals.

(C) Coaxial cables and fiber optics exclusively
(D) Satellite signals for all connections

Ans :

(A) Millimetre waves and multiple-input multiple-output (MIMO) technology
5G network technology employs advanced technical methods to deliver its high performance. It uses millimetre waves, which are a band of spectrum that can carry large amounts of data. This is combined with multiple-input multiple-output (MIMO) technology, which uses multiple antennas to send and receive more data simultaneously, enhancing both speed and capacity for users.

Oct/Nov 2018

46. How is Blockchain defined in the context of emerging banking technologies?
(A) A centralized database managed by a single authority
(B) A distributed ledger technology (DLT) that stores transactions in cryptographically linked "blocks"
(C) A software for creating virtual reality experiences
(D) A type of artificial intelligence for voice recognition

Ans :

(B) A distributed ledger technology (DLT) that stores transactions in cryptographically linked "blocks"
Blockchain is a specific type of Distributed Ledger Technology (DLT). Its fundamental structure involves storing groups of transactions in units known as "blocks." These blocks are then linked together in a sequence using cryptography to form a chain. The entire ledger is distributed across a peer-to-peer network, ensuring redundancy and security against manipulation.

May/June 2007

47. A consortium of international banks aims to streamline its trade finance process, which suffers from delays, fraud risks, and lack of transparency among multiple participants (importers, exporters, and their banks). Which technology would be most suitable for creating a secure, immutable, and shared record of documents and payment commitments?
(A) Robotic Process Automation (RPA)
(B) Virtual Reality (VR)
(C) 5G Network
(D) Blockchain Technology

Ans :

(D) Blockchain Technology
The scenario requires a solution that provides security, immutability, and transparency across a network of multiple participants. Blockchain technology is ideally suited for this. Its use in trade finance would create a shared, distributed ledger where all transactional records are cryptographically signed and irrevocable. This prevents fraud, increases transparency, and enhances the resilience of the entire process.

Oct/Nov 2025

48. Assertion (A): Transactions recorded on a blockchain are considered immutable and extremely secure.
Reason (R): Blockchain involves cryptographically signed records shared by all participants in a network with distributed ledger technology and shared control.
In the context of the two statements, which of the following is correct?
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
The assertion that blockchain transactions are immutable and secure is a key feature of the technology. The reason explains the underlying mechanism: records are cryptographically signed and shared across a distributed network with shared control. This distributed and cryptographic nature is precisely what makes the transactions immutable and secure, thus (R) is the correct explanation for (A).

May/June 2012

49. What is a key structural difference between digital currencies and cryptocurrencies?
(A) Digital currencies are centralized, while cryptocurrencies are decentralized.
(B) Digital currencies are decentralized, while cryptocurrencies are centralized.

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Oct/Nov 2025

5. Which component of a bank's IT infrastructure includes items like uninterruptible power systems (UPS), constant voltage stabilisers (CVT), and generators?
(A) Computer hardware
(B) Precision ACs and fire safety systems
(C) Power supply and other related equipment
(D) Communication equipment

Ans :

(C) Power supply and other related equipment
The infrastructure components are categorized into three groups. The second category, "Power supply and other related equipment," specifically lists uninterruptible power systems (UPS), constant voltage stabilisers (CVT), and generators. These items are crucial for maintaining continuous and stable power to the bank's IT systems, preventing interruptions and potential data loss.

May/June 2014

6. What term is used to refer to the role played by the group of persons directly or indirectly involved in managing and running a bank's computerised systems?
(A) Human Resources
(B) Peopleware
(C) Stakeholders
(D) System Administrators

Ans :

(B) Peopleware
The term 'Peopleware' is used to describe the human element involved in the management and operation of computerised systems. The associated risks include stagnation in knowledge and skill levels, which affects the efficiency of newer systems, and high turnover due to attrition, which makes finding suitable replacements increasingly difficult for banks.

Oct/Nov 2007

7. Which of the following is NOT listed as a major environmental hazard to computerised systems in banks?
(A) Spikes in power and improper grounding
(B) Unstabilised power supply
(C) Excessive humidity and water seepage
(D) Software virus and malware attacks

Ans :

(D) Software virus and malware attacks
The text lists several major environmental hazards, which are physical in nature. These include fire, unstabilised power supply, power spikes and improper grounding, excessive humidity, water seepage, floods, and the effect of radio transmissions on data. Software viruses and malware are classified as malicious damages, not as environmental hazards.

May/June 2023

8. According to the discussion on 'Human Errors and Omissions', what is considered the secondary cause of errors in computer data?
(A) Machine failure
(B) Human failure
(C) System design flaws
(D) Inadequate training

Ans :

(A) Machine failure
The text explicitly states that the cause in most cases of errors creeping into computerised systems is human failure. It then clarifies that machine failure is the secondary cause of errors in computer data. This distinction highlights the greater risk posed by human actions and omissions compared to the technical failure of hardware components.

NODIA

Oct/Nov 2010

9. Why are systems in a multi-programming or multi-user environment considered prone to risks of error and intentional frauds?
(A) They rely on complex and untested software packages.
(B) They are more susceptible to environmental hazards.
(C) It is very difficult to ascertain what the system is doing at any given time.
(D) They require a large number of computer professionals to manage.

Ans :

(C) It is very difficult to ascertain what the system is doing at any given time.
The text explains that in a multi-programming or multi-user environment, it is very difficult to ascertain what the system is doing. This opaqueness, combined with poor system design where users may not fully define the

The core distinction between the two technologies lies in their relationship with the real world. Augmented Reality (AR) overlays computer-generated perceptual information onto the existing real-world environment, enhancing it. In contrast, Virtual Reality (VR) completely replaces the user's real-world environment with a fully simulated one, immersing the user in a different, artificial world.

Oct/Nov 2010

54. Consider the following statements regarding the use of new technologies in banking:
Statement I: Banks can improve operational efficiency and individual productivity with the usage of VR, AR, AI, and sensor technologies.
Statement II: To create new business models, banks need a strong Application Programming Interfaces (API) strategy.
Which of the above statements is/are correct?
(A) Only Statement I
(B) Only Statement II
(C) Both Statement I and Statement II
(D) Neither Statement I nor Statement II

Ans :

(C) Both Statement I and Statement II
Statement I is correct; the text confirms that the combined use of VR, AR, AI, and sensor technologies can help banks improve operational efficiency and productivity. Statement II is also correct, as the text states that creating new business models requires a strong API strategy to deliver real-time data to various service layers connecting ecosystem players.

May/June 2005

55. According to the Financial Stability Board (FSB), which classifies 'FinTech credit' as credit activity facilitated by electronic platforms, what are its main components?
(A) Balance sheet lending and invoice trading
(B) Peer-to-peer lending and loan-based crowdfunding
(C) Corporate lending and SME financing
(D) Credit card lending and mortgage financing

Ans :

(B) Peer-to-peer lending and loan-based crowdfunding
The Financial Stability Board (FSB) gives a close approximation of 'digital lending' through its definition of 'FinTech credit'. The FSB has classified 'peer-to-peer lending' and 'loan-based crowdfunding' as the main components that constitute this category of FinTech credit, which is facilitated by electronic platforms.

NODIA

Oct/Nov 2022

56. What is the fundamental difference between Balance Sheet Lending (BSL) and Market Place Lending (MPL)?
(A) BSL is done by NBFCs, while MPL is done by banks.
(B) BSL involves unsecured loans, while MPL involves secured loans.
(C) BSL is for individuals, while MPL is for businesses.
(D) BSL lenders carry the credit risk on their balance sheet, while MPLs match borrowers and lenders without carrying the risk.

Ans :

(D) BSL lenders carry the credit risk on their balance sheet, while MPLs match borrowers and lenders without carrying the risk.
The core difference between the two digital lending models lies in where the credit risk resides. Balance Sheet Lenders (BSLs) are in the business of lending their own capital and therefore carry the associated credit risk on their own balance sheets. Market Place Lenders (MPLs), or aggregators, primarily act as intermediaries, matching lenders with borrowers without carrying the loans on their books.

May/June 2018

57. Based on common digital lending taxonomies, services like 'buy now pay later' (BNPL) are classified under which category of lenders?
(A) Proxy lenders
(B) Balance sheet lenders
(C) Market place lenders (NBFC-P2P)
(D) Fringe lenders

Ans :

(A) Proxy lenders
Digital lending taxonomies categorize different types of lenders operating outside the direct regulation of banks and NBFCs. Within the "Lending by individuals/entities other than banks and NBFCs" section, 'buy now pay later (BNPL)' services are explicitly placed under the category of 'Proxy lenders', alongside corporate cards, distinguishing them from other lender types.

(C) Both are always decentralized and managed by a community.
(D) Both are always centralized and controlled by a single entity.

Ans :

(A) Digital currencies are centralized, while cryptocurrencies are decentralized.
A fundamental distinction lies in their control structure. Digital currencies are typically centralized, meaning a central point of control, like a central bank or a company, governs the money supply and transactions. In contrast, cryptocurrencies are decentralized, operating on a distributed ledger like a blockchain, where regulations are made by the majority of the community or network participants.

Oct/Nov 2014

50. Match the characteristic (List-I) with the correct currency type (List-II) it generally describes.
List-I (Characteristic)
P. User identity is required and verified.
Q. Transactions are transparent on a public chain.
R. Control over supply is decentralized.
List-II (Currency Type)
1. Cryptocurrency
2. Digital Currency
(A) P-2, Q-1, R-1
(B) P-1, Q-2, R-2
(C) P-2, Q-2, R-1
(D) P-1, Q-1, R-2

Ans :

(A) P-2, Q-1, R-1
Digital currencies typically require user identification (P-2). Cryptocurrencies, on the other hand, are known for their transparency, where transactions are visible on a public chain (Q-1). Furthermore, a defining feature of cryptocurrencies is their decentralized control structure, where no single entity governs the supply or network (R-1), distinguishing them from centrally managed digital currencies.

May/June 2019

51. What is a Central Bank Digital Currency (CBDC)?
(A) A cryptocurrency created by a private company but backed by a central bank.
(B) A physical currency that can be exchanged for digital assets.
(C) A digital currency issued and guaranteed by a country's central bank.
(D) A global digital currency managed by a consortium of international banks.

Ans :

(C) A digital currency issued and guaranteed by a country's central bank.
A Central Bank Digital Currency (CBDC), also known as a digital fiat currency, is a form of digital money that is directly issued and guaranteed by a nation's central bank. It is virtually stored and easily accessible, representing a direct claim on the central bank, similar to physical cash, and can be used for making digital payments.

Oct/Nov 2006

52. On what date did the Reserve Bank of India (RBI) announce the launch of its first pilot for the retail digital rupee?
(A) August 10, 2022
(B) November 18, 2021
(C) June 22, 2022
(D) December 1, 2022

Ans :

(D) December 1, 2022
The Reserve Bank of India has been actively exploring the concept of a Central Bank Digital Currency. The text specifies that the RBI announced the launch of the first pilot program for the retail version of the digital rupee on a specific date. This launch date was December 1, 2022, marking a significant step in India's journey toward a CBDC.

May/June 2021

53. What is the fundamental difference between Augmented Reality (AR) and Virtual Reality (VR)?
(A) AR replaces the user's environment with a simulation, while VR enhances the real-world environment.
(B) Both AR and VR completely replace the user's real-world environment.
(C) AR enhances the real-world environment, while VR completely replaces it with a simulation.
(D) Both AR and VR only enhance the user's real-world environment without replacing it.

Ans :

(C) AR enhances the real-world environment, while VR completely replaces it with a simulation.

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CHAPTER 48

Security Considerations and Mitigation Measures in Banks

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Oct/Nov 2012

1. According to the introductory text, which factor has NOT been a primary driver for banks to open up their IT platforms, thereby increasing the importance of cybersecurity?
(A) Competition from peer banks
(B) Mandates from international banking regulators
(C) Enhancing the customer experience
(D) Reduction of the transaction cost

Ans :

(B) Mandates from international banking regulators
The text highlights that banks have opened up their IT platforms in the name of digitization, competition from peers, enhancing customer experience, and reducing transaction costs. While international standards may influence practices, the text does not mention direct mandates from international regulators as a primary driver for this specific strategic shift in platform accessibility.

May/June 2021

2. What are the three interdependent but separate components that constitute a typical computerised environment in a bank?
(A) Software, Data, and Hardware
(B) Data, Networks, and Peopleware
(C) Applications, Databases, and Servers
(D) Operating Systems, Communication Links, and Terminals

Ans :

(A) Software, Data, and Hardware
A typical computerised environment is described as consisting of three interdependent yet separate components: Software, Data, and Hardware. These components are continuously used by various stakeholders, including computer operators, programmers, and customers. The interplay between these three core elements defines the operational landscape and its associated risks within the banking sector.

Oct/Nov 2018

3. Which of the following is identified as a broad risk outcome that is NOT specific to banking but is encountered in all business activities?
(A) Increased regulatory scrutiny
(B) Decreased employee morale
(C) Violation of privacy
(D) Higher operational costs

Ans :

(C) Violation of privacy
The text lists four broad risks that are applicable to all types of business activities, not just banking. These include incorrect decision-making, interruption in activities due to loss of resources, violation of privacy, and direct financial loss from computer frauds. Increased regulatory scrutiny is a consequence, not a primary risk category listed here.

May/June 2005

4. In the context of risks associated with Data and Software, what is identified as the single largest factor that promotes the scope of fraud?
(A) Use of outdated application software
(B) Lack of data encryption during transmission
(C) Errors in software modifications
(D) Inadequate control over data

Ans :

(D) Inadequate control over data
The text explicitly states that inadequate control over data is the single largest factor which promotes the scope of fraud. Because data is often stored on magnetic media, any tampering can be difficult to detect without adequate controls. This lack of oversight creates significant opportunities for unscrupulous elements to commit fraudulent acts.

Oct/Nov 2023

41. A bank's back-office department manually processes thousands of incoming emails daily to identify and reply to routine customer inquiries. This is a repetitive, time-consuming task prone to human error. Which technology is best suited to automate this specific process?
(A) Virtual Reality (VR)
(B) 5G Network
(C) Blockchain
(D) Robotic Process Automation (RPA)

Ans :

(D) Robotic Process Automation (RPA)
Robotic Process Automation (RPA) is specifically designed for automating routine and repetitive business practices with software robots. The scenario describes a mundane task that requires reading emails and sending routine replies, which fits the application profile of RPA perfectly. By building rules for a software robot, the bank can automate this task, freeing up employees for more complex operations.

May/June 2022

42. Which of the following is a major advantage of using Robotic Process Automation (RPA) in banking operations?
(A) It can work 24 x 7 without fatigue and offers time and cost savings.
(B) It requires constant human intervention and supervision for quality assurance and process updates.
(C) It is designed primarily for complex, decision-making tasks that are too difficult for human employees.
(D) It introduces a higher rate of compliance errors as it cannot adapt to changing regulations.

Ans :

(A) It can work 24 x 7 without fatigue and offers time and cost savings.
Robotic Process Automation (RPA) offers several significant advantages for business processes. Among the major benefits are its ability to operate continuously (24 x 7) without fatigue, leading to substantial time and cost savings. Furthermore, software robots are highly accurate, resulting in zero typos or copy/paste mistakes, and they ensure better compliance with procedural norms.

May/June 2016

43. What is the primary purpose of deploying a chatbot for customer service?
(A) To conduct complex financial audits
(B) To design the bank's IT infrastructure
(C) To simulate a conversation or interaction with a real person
(D) To manage the bank's internal human resources

Ans :

(C) To simulate a conversation or interaction with a real person
Chatbots are software applications specifically designed to mimic written or spoken human speech. Their main purpose, especially in a customer service context, is to simulate a conversation or interaction with a real person. They can be deployed on a website or as a standalone application to answer queries and guide users, providing automated assistance to customers.

Oct/Nov 2009

44. Which characteristic of 5G technology is particularly beneficial for creating new ways to deliver mobile and online banking services?
(A) High latency and low data capacity
(B) Dependence on older 2G network infrastructure
(C) Limited geographical coverage in urban areas only
(D) Low latency, high data capacity, and reliability

Ans :

(D) Low latency, high data capacity, and reliability
5G technology is defined by several key characteristics that make it superior to previous generations. These are its low latency (minimal delay), high data capacity (ability to handle large volumes of data), and high reliability. This combination will eventually help banks create new and improved ways to deliver mobile, online, and even in-branch services more efficiently.

May/June 2023

45. 5G, the fifth-generation cellular network technology, utilizes which of the following to achieve its performance?
(A) Millimetre waves and multiple-input multiple-output (MIMO) technology
(B) Dial-up modems and telephone lines

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problem, creates opportunities for both errors and intentional frauds to occur without easy detection.

May/June 2019

10. Malicious damage to computer systems from which group is considered to pose a greater risk due to the difficulty in detecting their unauthorized acts?
(A) Computer professionals
(B) Disgruntled employees from non-technical departments
(C) External hackers with malicious intentions
(D) Temporary staff and interns

Ans :

(A) Computer professionals
The text states that systems are exposed to greater risks from computer professionals. Any unauthorized act committed by them may be very difficult to detect. This is because their advanced technical knowledge allows them to bypass controls and manipulate systems in ways that are not easily identifiable, necessitating specific controls to limit their access.

Oct/Nov 2016

11. Which of the following is a method of carrying out fraudulent transactions in a networked system?
(A) Bypassing physical security to access the data centre
(B) Overriding the uninterruptible power supply
(C) Submitting falsified hard copy reports
(D) Intercepting data while it is in transit

Ans :

(D) Intercepting data while it is in transit
The text lists several ways fraudulent transactions can be executed in computerised systems. For networked systems specifically, it mentions that frauds may be carried out during transactions by intercepting data while in transit. This method exploits the communication link between different points in the network to capture or alter sensitive information.

May/June 2008

12. In the context of control mechanisms, what is the primary function of a 'Preventive' control?
(A) To identify errors and irregularities after they have occurred
(B) To prevent errors or irregularities from occurring
(C) To remove or reduce the effects of errors after they are identified
(D) To provide an audit trail of all transactions for later review

NODIA

Ans :

(B) To prevent errors or irregularities from occurring
Preventive controls are designed to stop errors or irregularities from happening in the first place. The text provides an example of a good user interface with required validations, which reduces the likelihood of data entry errors. The objective of such controls is to proactively prevent problems rather than reacting to them after they occur.

Oct/Nov 2022

13. Which statement accurately distinguishes between 'Detective' and 'Corrective' controls?
(A) Detective controls prevent errors, while Corrective controls report them.
(B) Detective controls are manual, while Corrective controls are automated.
(C) Detective controls identify errors after they occur, while Corrective controls reduce their effects.
(D) Detective controls focus on data, while Corrective controls focus on hardware.

Ans :

(C) Detective controls identify errors after they occur, while Corrective controls reduce their effects.
The text defines detective controls as those that identify errors and irregularities after they happen, such as an input validation program checking boundary limits. Corrective controls, on the other hand, are designed to remove or reduce the effects of these identified issues, like communications software requesting retransmission of corrupted data.

May/June 2017

14. Which of the following is NOT mentioned as a measure for physical control over access to assets in a computerised banking environment?
(A) Using mechanisms like passwords, PINs, or fingertip image verification
(B) Prohibiting any development work on the system earmarked for regular operational work

(A) CNP fraud involves the physical absence of the cardholder and merchant, making it more vulnerable.
(B) CNP fraud primarily occurs through online or phone channels, while CP fraud occurs at physical stores or ATMs.
(C) CP fraud typically uses stolen card data to create duplicate physical cards, while CNP fraud uses only the stolen numbers.
(D) CNP fraud is often a form of large-scale identity theft, while CP fraud is typically opportunistic theft.

Ans :

(A) CNP fraud involves the physical absence of the cardholder and merchant, making it more vulnerable.
The text distinguishes the two based on physical presence. In Card-Not-Present (CNP) transactions, the buyer and seller do not physically meet, making these transactions anonymously and thus far more vulnerable. CP fraud, conversely, involves the theft of card data when the payment card is physically present, for example, at an ATM or POS device.

Oct/Nov 2020

41. Which technique, used by Business Email Compromise (BEC) perpetrators, involves sending bogus emails that appear to be from a trusted sender to prompt victims to reveal confidential information?
(A) Spoofing
(B) Malware injection
(C) Vishing
(D) Spear-phishing

Ans :

(D) Spear-phishing
The text lists three techniques used in Business Email Compromise (BEC) scams. It specifically defines 'Spear-phishing' as the act of sending bogus emails that appear to originate from a trusted sender, with the goal of prompting victims to reveal confidential information to the perpetrators. This is a highly targeted form of phishing.

May/June 2018

42. According to data cited in the text, what was the approximate average cost of a data breach in 2021?
(A) $3.86 million
(B) $1.00 million
(C) $4.24 million
(D) $5.50 million

Ans :

(C) $4.24 million
The text provides specific figures to highlight the increasing financial impact of data breaches. It states that the average cost of a data breach increased significantly from $3.86 million in 2020 to $4.24 million in 2021. This data point underscores the high opportunity cost of not investing in employee training and cybersecurity.

Oct/Nov 2012

43. Why is the patching of application software sometimes problematic for a bank's IT system?
(A) Patching is often very expensive and requires a large, dedicated budget that is hard to secure.
(B) Patches released by vendors are often incompatible with the bank's existing or legacy hardware.
(C) Frequent patching can make the system less efficient, requiring a new development.
(D) Banking regulators do not permit frequent changes to critical application software without extensive reviews.

Ans :

(C) Frequent patching can make the system less efficient, requiring a new development.
The text discusses the challenges of managing computer software. It notes that application software undergoes frequent changes, resulting in patching. This frequent patching can, over time, make the system less efficient and more complex, eventually necessitating a completely new development. This highlights the need for a proper change management policy.

May/June 2021

44. What is the primary objective of a Disaster Recovery Management policy in a bank?
(A) To completely eliminate all possible internal and external threats to the information systems.
(B) To replace all outdated hardware and software on a periodic basis to prevent failures.
(C) To train all employees in cybersecurity best practices to reduce the risk of human error.
(D) To safeguard assets with least damage and maintain business continuity at an optimum

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Ans :

(A) Accounting audit trail and Operations audit trail
The text identifies two specific types of audit trails. The Accounting audit trail maintains a record of processes that update data and information. The Operations audit trail, in contrast, maintains a record of the attempted or actual consumption of resources within a system, such as hardware or software usage.

Oct/Nov 2024

19. In a branch banking environment, what is the primary purpose of a 'Checksum'?
(A) To encrypt sensitive customer data before transmission
(B) To authenticate users logging into the system
(C) To ensure the integrity of data stored in a computer file
(D) To track the sequence of financial transactions

Ans :

(C) To ensure the integrity of data stored in a computer file
A checksum is generated to ensure the integrity of data stored in a computer file. It is a number calculated based on key data items. In branch banking, the checksum generated at the previous day's closing is tallied with the one generated at the next day's opening to verify that the file data has not been altered overnight.

May/June 2015

20. What is the function of a Message Authentication Code (MAC) in electronic fund transfer systems?
(A) To encrypt the entire message to ensure confidentiality
(B) To authenticate the identity of the sender using a biometric signature
(C) To create a non-repudiable record of the transaction
(D) To determine the integrity of a message in transit

Ans :

(D) To determine the integrity of a message in transit
The text describes the Message Authentication Code (MAC) as a control mechanism used in electronic fund transfer systems to determine the integrity of a message. A secret key is applied to data items, and the resulting MAC is recalculated by the receiver. If the codes do not match, it signifies the message was altered in transit.

Oct/Nov 2006

21. What is the primary goal of 'Data Masking' as a security tool?
(A) To completely erase sensitive data from test and development environments after use
(B) To archive production data in a securely encrypted format for long-term compliance and storage
(C) To limit the risk of data breaches by masking personal data in non-production environments
(D) To validate the accuracy and integrity of data in real-time as it is being entered or processed

Ans :

(C) To limit the risk of data breaches by masking personal data in non-production environments
The goal of data masking is to enhance security and privacy by masking personal data like credit card numbers and Social Security numbers. This is particularly used to protect sensitive information when creating test and development environments from production data, thereby minimizing the risk of data breaches in these less-secure environments.

May/June 2013

22. Which computer audit approach involves the auditor examining the internal controls of a computer installation and the input/output of a system, without a direct examination of the application software?
(A) Audit through the Computer
(B) Audit around the Computer
(C) Audit with the Computer
(D) Integrated Audit Approach

Ans :

(B) Audit around the Computer
The 'Audit around the Computer' approach involves the auditor inferring the correctness of processing by examining inputs and their corresponding outputs. The assumption is that if the output is correct for a given input, the processing is also correct. This method avoids direct testing of the application software itself and is suitable for simple systems.

NODIA

of exigency where such updates are necessary, they must be done with proper authorisations, documented, and logs must be made available.

Oct/Nov 2007

49. The Information Technology Act, 2000 of India was enacted in line with a model law adopted by which international body in 1996?
(A) The World Trade Organization (WTO)
(B) The International Monetary Fund (IMF)
(C) The Bank for International Settlements (BIS)
(D) The United Nations Commission on International Trade Law (UNCITRAL)

Ans :

(D) The United Nations Commission on International Trade Law (UNCITRAL)
The text states that the United Nations Commission on International Trade Law (UNCITRAL) adopted the 'Model Law on Electronic Commerce' in 1996. As India is a signatory to this Model Law, the Indian Parliament enacted the Information Technology Act, 2000, to provide a legal framework for e-commerce and electronic transactions.

May/June 2023

50. Under the IT Act, 2000, what is the minimum rank of a police officer who can investigate any offence defined under the Act?
(A) Deputy Superintendent of Police
(B) Inspector of Police
(C) Sub-Inspector of Police
(D) Superintendent of Police

Ans :

(A) Deputy Superintendent of Police
The text describes the special procedure for investigation under the IT Act. It specifies that a police officer not below the rank of Deputy Superintendent of Police (DSP) can investigate any offence under the Act. This indicates the seriousness with which these technology-related offences are treated, requiring investigation by a senior officer.

Oct/Nov 2010

51. The IT Act, 2000, amended the Banker's Books Evidence Act, 1891, to redefine 'banker's books'. What does this new definition include?
(A) Only the original ledgers, daybooks, and cash books that are kept in written, hard-copy form.
(B) Only electronic records that have been certified as accurate by the bank's designated internal auditor.
(C) Printouts of data stored in a floppy, disk, tape or other electromagnetic data-storage device.
(D) Only electronic records stored in a centralized server that is physically located within the borders of India.

Ans :

(C) Printouts of data stored in a floppy, disk, tape or other electromagnetic data-storage device.
The amendment to the Banker's Books Evidence Act, 1891, is described as redefining banker's books to include not only traditional written books but also printouts of data stored in various electronic forms. The text specifically mentions a floppy, disk, tape, or any other form of electromagnetic data-storage device, modernizing the concept of evidence.

May/June 2019

52. In public-key cryptography used for digital signatures, what are the respective uses of the 'Private Key' and 'Public Key'?
(A) The Private Key is used for verification, and the Public Key is used for creation.
(B) The Private Key is used for creation, and the Public Key is used for verification.
(C) Both keys are used interchangeably for creation and verification.
(D) The Private Key is public, and the Public Key is kept confidential.

Ans :

(B) The Private Key is used for creation, and the Public Key is used for verification.
The text clearly states that the 'Private Key' is kept confidential and is used only by the signer to create the digital signature. The corresponding 'Public Key' is used by a relying party to verify the digital signature. This asymmetric relationship is the foundation of security in public-key cryptography.

Oct/Nov 2016

53. A bank's audit committee is reviewing its IT audit approach. The bank has recently implemented a highly complex, high-volume Core Banking System with minimal paper-based audit trails. The auditors have limited technical expertise. Based on the audit approaches described, which

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events that have occurred (e.g., smoke detectors). Corrective controls are for recovery after a loss (e.g., business continuity planning).

Oct/Nov 2015

27. Which of the following is listed as a primary need for implementing Information System (IS) Security in a bank?
(A) To enhance employee productivity through streamlined and secure workflows
(B) To reduce the long-term operational cost of IT infrastructure and support
(C) To facilitate easier and more trustworthy access for customers to online services
(D) To comply with the law of the land and regulator's guidelines

Ans :

(D) To comply with the law of the land and regulator's guidelines
The text outlines four key reasons for the need for IS Security. The very first reason listed is the requirement to comply with the law of the land and the guidelines issued by regulators. This highlights the mandatory legal and regulatory compliance aspect of implementing robust security measures in the banking sector.

May/June 2006

28. Which of the following represents the core objectives of an IS security policy, often referred to as the CIA triad?
(A) Control, Integrity, and Audit
(B) Confidentiality, Integrity, and Availability
(C) Certification, Authentication, and Authorisation
(D) Compliance, Assurance, and Identification

Ans :

(B) Confidentiality, Integrity, and Availability
The text explicitly states that a well-documented IS security policy has three main objectives. These are ensuring information is available only to authorized users (Confidentiality), ensuring information is modified only by authorized users in an authorized manner (Integrity), and ensuring information is available to authorised persons when required (Availability).

Oct/Nov 2017

29. In the context of IS security controls, which method of authentication is based on 'something the individual is'?
(A) A password or Personal Identification Number (PIN)
(B) An ATM card or a smart card
(C) A fingerprint or retinal scan
(D) A cryptographic key

Ans :

(C) A fingerprint or retinal scan
The text describes three means of authenticating a user's identity. The category of 'something the individual is' refers to biometric characteristics. Examples given include fingerprint, iris or retinal scanning, palm vein recognition, facial recognition, and voice patterns. Passwords and PINs fall under 'something the individual knows,' and cards are 'something the individual possesses.'

May/June 2022

30. What is the primary purpose of 'Non-repudiation' as a security control?
(A) To ensure data remains confidential during transmission
(B) To prevent unauthorized users from accessing system resources
(C) To verify that data has not been altered during processing
(D) To prevent later denial that an operation or event took place

Ans :

(D) To prevent later denial that an operation or event took place
Non-repudiation is defined as the ability to prove that an operation or event occurred, preventing later denial by the parties involved. For e-mails, it guarantees that the recipient cannot deny receiving the message and the sender cannot deny sending it. This is crucial for establishing accountability in electronic transactions.

Oct/Nov 2023

31. What type of cyber threat involves a fraudulent attempt to obtain sensitive information by disguising as a trustworthy entity in an electronic communication?
(A) Phishing
(B) Vishing
(C) Malware
(D) Ransomware

Ans :

(A) Phishing

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(C) Maintaining an access log to keep a record of system access by various users
(D) Making the source code of a running system available to on-site operational staff

Ans :

(D) Making the source code of a running system available to on-site operational staff
The text lists several physical control measures. A key measure mentioned is that the source code of a running system should not be available on the system to avoid tampering. Making it available would be a significant security vulnerability, contradicting the principle of physical and logical separation of operational and development environments.

Oct/Nov 2009

15. How do operating systems and database systems differ in the level at which they control access to data?
(A) The operating system controls access at the directory and file level, while the database controls at the record and field level.
(B) The operating system controls access at the record and field level, while the database controls at the directory and file level.
(C) Both operating systems and databases control access only at the file level.
(D) The operating system controls access for external users, while the database controls access for internal users.

Ans :

(A) The operating system controls access at the directory and file level, while the database controls at the record and field level.
The text clearly differentiates the access control capabilities of the two basic softwares. It specifies that the operating system controls access at the directory and file level. In contrast, the database system provides more granular control, managing access at the more detailed record and field level within a file.

May/June 2020

16. What is the primary difference between 'Authentication' and 'Authorization' as types of logical access controls?
(A) Authentication grants access to files, while Authorization grants access to the system.
(B) Authentication verifies a user's identity, while Authorization defines the user's access rights to resources.
(C) Authentication is done via passwords, while Authorization is done via biometrics.
(D) Authentication is managed by the database, while Authorization is managed by the operating system.

Ans :

(B) Authentication verifies a user's identity, while Authorization defines the user's access rights to resources.
The text defines authentication as the process that allows only authorized users to access the systems, essentially verifying who they are. Authorization, on the other hand, is the subsequent step that allows just-minimum access to specific files and directories, defining what an authenticated user is permitted to do within the system.

Oct/Nov 2013

17. Which of the following is an example of an 'Accounting control' introduced in application software?
(A) Formal policies and procedures
(B) Dual controls and authorisations
(C) Well-defined lines of responsibility
(D) Segregation of duties among staff

Ans :

(B) Dual controls and authorisations
The text distinguishes between accounting and administrative controls. It states that accounting controls are introduced in the application software and take the form of measures like dual controls and authorisations, validation checks on data, and numerical sequencing. Formal policies and lines of responsibility are examples of administrative controls, which are procedural in nature.

May/June 2011

18. What are the two types of audit trails maintained in a computerised system?
(A) Accounting audit trail and Operations audit trail
(B) System audit trail and User audit trail
(C) Transaction audit trail and Error audit trail
(D) Successful audit trail and Unsuccessful audit trail

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control and monitoring of traffic entering the bank's internal network.

May/June 2007

36. What is the first step in the described modus operandi of a cyber-attack?
(A) Obtain credentials
(B) Reconnaissance and Compromise
(C) Send fraudulent messages
(D) Hide/cover up evidence

Ans :

(B) Reconnaissance and Compromise
The text outlines a four-step modus operandi for a cyber-attack. The process begins with 'Reconnaissance and Compromise,' where criminals research the target organization, gather information like IP addresses and employee emails, and check for security holes. This initial phase is crucial for planning the subsequent stages of the attack.

Oct/Nov 2005

37. What is 'ATM card skimming'?
(A) A method where fraudsters trick users into revealing their PIN and card number over the phone.
(B) A fraud where an ATM is manipulated to dispense extra cash without debiting the associated account.
(C) The use of entirely fake ATM machines, installed in public places, to capture cards and associated data.
(D) A technique to create a duplicate card by installing devices on an ATM to steal card data and PIN.

Ans :

(D) A technique to create a duplicate card by installing devices on an ATM to steal card data and PIN.
The text defines ATM card skimming as a method where fraudsters install skimming devices in ATM machines to steal data from the card's magnetic stripe. The PIN is also captured simultaneously, often by using a dummy keypad or a well-hidden pinhole camera. This stolen data is then used to create a duplicate card.

May/June 2009

38. A customer receives a text message on his mobile phone claiming his bank account will be suspended unless he immediately clicks a link and verifies his User ID, Password, and Card PIN on the provided website. The message creates a sense of urgency. Which type of fraud is this an example of?
(A) Smishing
(B) Vishing
(C) Whaling
(D) Account Takeover Fraud

Ans :

(A) Smishing
This scenario perfectly describes Smishing. The text explains that smishing, like phishing, uses cell phone text messages to lure consumers into a trap. These messages often contain a URL or phone number and create a sense of immediate need for action, asking for sensitive details like User ID, Password, and PIN.

Oct/Nov 2011

39. In 'Online Marketplaces Fraud', how do scammers posing as buyers typically trick a victim into transferring money?
(A) By sending a fake payment confirmation email and then asking for a partial refund due to 'overpayment'.
(B) By delivering a faulty or counterfeit product and then refusing to accept a return or issue a refund.
(C) By sending a UPI 'Collect Request' and instructing the victim to enter their MPIN to receive money.
(D) By asking for advance shipping or insurance fees to be paid to a third-party logistics account.

Ans :

(C) By sending a UPI 'Collect Request' and instructing the victim to enter their MPIN to receive money.
The text describes a common method used by scammers posing as buyers in online marketplaces. They send Money Requests (Collect Requests) through a UPI Mobile App and trick the recipient by instructing them to enter their MPIN to receive the money. In reality, entering the MPIN authorizes a payment to the fraudster's account.

May/June 2016

40. What is the fundamental difference between Card-Not-Present (CNP) fraud and Card-Present (CP) fraud?

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Phishing is explicitly defined as the fraudulent attempt to obtain sensitive information such as usernames, passwords, and credit card details, often for malicious reasons, by disguising as a trustworthy entity in an electronic communication. This method relies on social engineering to trick the victim into revealing confidential data.

May/June 2024

32. A spear phishing attack that is specifically directed at senior executives and other high-profile targets within an organization is known as:
(A) Vishing
(B) Whaling
(C) Smishing
(D) Angler Phishing

Ans :

(B) Whaling
The text defines 'Whaling' as a term coined for spear phishing attacks that are directed specifically at senior executives and other high-profile targets. The content of a whaling attack is crafted to be relevant to an upper manager's role, such as an executive issue like a subpoena or a customer complaint.

Oct/Nov 2014

33. What is the key difference between 'Phishing' and 'Vishing'?
(A) Phishing uses email, while Vishing uses SMS text messages.
(B) Phishing uses electronic communication, while Vishing uses voice communication (VoIP).
(C) Phishing targets individuals, while Vishing targets corporations.
(D) Phishing seeks passwords, while Vishing seeks financial resources.

Ans :

(B) Phishing uses electronic communication, while Vishing uses voice communication (VoIP). Vishing is described as the illegal access of data via Voice over Internet Protocol (VoIP) and is termed IP telephony's version of phishing. It uses voice messages to steal identities and financial resources. The primary distinction is the medium used: Vishing uses voice, whereas traditional phishing primarily uses text-based electronic communications like email.

May/June 2012

34. Which of the following is a recommended 'Safe Online Banking Tip' for customers?
(A) Disable the 'remember password' option on browsers
(B) Use a public computer to log in for convenience
(C) Share your details with the bank's customer service for quick verification
(D) Click on links in emails from the bank to access the website directly

Ans :

(A) Disable the 'remember password' option on browsers
The text provides a list of safe online banking tips. Among them are "Change your password regularly," "Create a strong password," and "Do not use public computers to log in." It also explicitly mentions "Disable the remember password option," as this feature can expose credentials if the device is compromised or shared.

Oct/Nov 2008

35. According to the following statement, what is the primary purpose of using web servers as an intermediary for customer access? "They should provide online access to customers only through web servers so that there is no direct connection between the Internet and intranet. It facilitates a high level of control and in-depth monitoring using logging and auditing tools."
(A) To increase the speed of online transactions for customers.
(B) To reduce the need for firewalls and intruder detection systems.
(C) To prevent a direct connection between the public Internet and the bank's internal intranet.
(D) To facilitate the installation of virus and DDOS solutions.

Ans :

(C) To prevent a direct connection between the public Internet and the bank's internal intranet.
The extract on 'Perimeter protection' explicitly states that online access should be provided to customers only through web servers to ensure there is no direct connection between the Internet and the intranet. This architectural design creates a crucial security buffer, allowing for better

NODIA

level.

Ans :

(D) To safeguard assets with least damage and maintain business continuity at an optimum level.
The main objective of a disaster recovery policy is explicitly stated as being twofold: to safeguard Information and System assets with the least possible damage during a disaster, and to maintain business continuity at an optimum level within the shortest possible time. This focuses on resilience and rapid recovery.

Oct/Nov 2018

45. Before devising a disaster recovery plan, what analysis must be carried out by functional units to identify critical areas and systems?
(A) A Business Impact Analysis (BIA)
(B) A Cost-Benefit Analysis (CBA)
(C) A Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis
(D) A Root Cause Analysis (RCA)

Ans :

(A) A Business Impact Analysis (BIA)
The text clearly states that before devising any disaster recovery plan, a complete Business Impact Analysis (BIA) must be carried out. This analysis is performed by functional units to identify the critical areas and systems that affect the business, which helps in prioritizing recovery efforts and defining recovery objectives.

May/June 2005

46. The process of disaster recovery planning is divided into four phases. What is the correct sequence of these phases as shown in the text?
(A) Preparation, Awareness, Testing, Recovery
(B) Awareness, Testing, Preparation, Recovery
(C) Preparation, Testing, Awareness, Recovery
(D) Awareness, Preparation, Testing, Recovery

Ans :

(D) Awareness, Preparation, Testing, Recovery
The text illustrates the four phases of Disaster Recovery Planning. The correct chronological order of these phases is shown as Awareness, followed by Preparation, then Testing, and finally, Recovery. This logical progression ensures a comprehensive and effective approach to disaster management.

Oct/Nov 2025

47. Which statement correctly defines Recovery Point Objective (RPO) and Recovery Time Objective (RTO)?
(A) RPO is the point in the past to which data can be recovered, and RTO is the future point in time when the bank will be running again.
(B) RPO is the maximum time taken to recover operations, and RTO is the maximum amount of data that can be acceptably lost.
(C) RPO is the technical target for system uptime percentage, and RTO is the business target for data integrity verification.
(D) RPO relates to the full recovery of hardware components, and RTO relates to the full recovery of software and applications.

Ans :

(A) RPO is the point in the past to which data can be recovered, and RTO is the future point in time when the bank will be running again.
The text defines RPO as the point in time in the past to which a bank's data can be recovered, representing potential data loss. RTO is defined as the point in time in the future at which the bank will be up and running again, representing the duration of the service outage.

May/June 2014

48. According to a table of disaster scenarios, which of the following measures is prescribed to counter disasters arising from a 'lack of data consistency'?
(A) Establishing and documenting proper logical access controls and user-level privileges.
(B) Preventing direct modification of data and making logs available for any exigency-based updates.
(C) Ensuring that a sound backup procedure is adopted and meticulously followed by the institution.
(D) Commissioning Near Site Data Centres to ensure Zero Data Loss through synchronous replication.

Ans :

(B) Preventing direct modification of data and making logs available for any exigency-based updates.
The table directly addresses the 'Disaster due to lack of data consistency'. The corresponding recovery step specified is that direct modification or updating of data must be prevented. In cases

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Oct/Nov 2021

23. The 'Audit through the Computer' approach is particularly useful in which of the following situations?

(A) When the system is simple and uses well-tested software
(B) When the auditor has little technical expertise
(C) When a clear and complete audit trail is generated by the system
(D) When an application system is complex and handles large volumes of data

Ans :

(D) When an application system is complex and handles large volumes of data
The text states that auditing through the computer is quite useful in situations where an application system is complex and handles large volumes of data. This approach uses the computer itself to test logic and records, making it more effective than manual methods for complex systems where 'auditing around' is impractical.

May/June 2025

24. What are Computer-Aided Audit Tools and Techniques (CAATTs) primarily used for in the 'Audit with the Computer' approach?

(A) To audit computer-generated files, records, and evaluate internal controls
(B) To provide automated training modules for auditors who have little technical expertise
(C) To automatically document and verify the physical controls of a data centre
(D) To rapidly create simple application systems for the purpose of audit testing

Ans :

(A) To audit computer-generated files, records, and evaluate internal controls
The 'Audit with the Computer' approach utilizes audit software, and CAATTs are described as an efficient and effective way to audit computer-generated files, records, and documents. They are also used to evaluate the internal controls over processing within a computerised environment, allowing for more in-depth and automated testing.

Oct/Nov 2019

25. According to the objective of an IS Audit, what is defined as an 'undesirable event'?

(A) Any incident of sufficient severity that requires the immediate use of pre-planned corrective controls
(B) Any event that results in a direct or indirect financial loss to the organisation or its stakeholders
(C) An incident arising from unauthorised, inaccurate, incomplete, ineffective or inefficient input
(D) A situation where key business objectives are not fully achieved due to system failures or inadequacies

Ans :

(C) An incident arising from unauthorised, inaccurate, incomplete, ineffective or inefficient input
The objective of an IS audit is to evaluate controls that prevent, detect, or correct undesirable events. The text specifically defines an undesirable event as an incident that arises if unauthorised, inaccurate, incomplete, ineffective, or inefficient input enters into a system. This definition focuses on the quality and validity of system inputs.

May/June 2010

26. Match the type of control evaluated in an IS Audit (List-I) with its correct description (List-II).

List-I
P. Deterrent controls
Q. Preventive controls
R. Detective controls
S. Corrective controls

List-II
1. Report or record the occurrence of undesired events.
2. Are designed for recovery from a loss situation.
3. Are designed to discourage people from doing undesirable activities.
4. Prevent an undesirable event from occurring or minimise its probability.

(A) P-3, Q-4, R-1, S-2
(B) P-4, Q-3, R-2, S-1
(C) P-3, Q-1, R-4, S-2
(D) P-2, Q-4, R-1, S-3

Ans :

(A) P-3, Q-4, R-1, S-2
The text defines four types of controls. Deterrent controls discourage undesirable activities (e.g., written policies). Preventive controls stop or minimize the probability of an event (e.g., firewalls). Detective controls report on undesired

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approach would be LEAST suitable for this scenario?
(A) Audit through the Computer
(B) A combination of 'Audit through' and 'Audit with' the computer
(C) Audit around the Computer
(D) Audit with the Computer using CAATTs

Ans :

(C) Audit around the Computer
The 'Audit around the Computer' approach is described as not gelling well with systems that are complex in terms of size and volumes. It relies on simple systems and clear audit trails. Given the bank's complex, high-volume CBS with limited paper trails, this approach would be inadequate and highly unsuitable for providing sufficient audit assurance.

May/June 2008

54. According to the G. Gopalakrishana Committee Report recommendations on Information Security, to whom should the Chief Information Security Officer (CISO) directly report?
(A) The Chief Information Officer (CIO)
(B) The Board of Directors
(C) The Head of the Internal Audit department
(D) The Head of the Risk Management function

Ans :

(D) The Head of the Risk Management function
A key recommendation from the G. Gopalakrishana Committee Report's chapter on Information Security is that the CISO needs to report directly to the Head of the Risk Management function. The report explicitly states that the CISO should not have a direct reporting relationship with the CIO to ensure independence and avoid conflicts of interest.

Oct/Nov 2022

55. Which of the following functions did the G. Gopalakrishana Committee report indicate CANNOT be outsourced by a bank?
(A) Internal Audit and KYC compliance decision making
(B) Technical operations and management of the primary data centre
(C) Application software development and ongoing system maintenance
(D) Front-line customer service and call centre operations

Ans :

(A) Internal Audit and KYC compliance decision making
The report's section on IT Services Outsourcing refers to RBI guidelines that indicate certain activities cannot be outsourced. The text specifically lists Internal Audit, Compliance function, and decision-making functions like KYC compliance and loan sanctioning as activities that need to be carried out by the bank itself.

May/June 2017

56. As per the G. Gopalakrishana Committee's recommendations on Cyber Fraud, banks are required to constitute a special committee for monitoring and follow-up of fraud cases involving what specific amount?
(A) Amounts of 10 lakhs and above
(B) Amounts of 1 crore and above
(C) All cases of fraud, irrespective of the amount
(D) All cases involving a unique modus operandi

Ans :

(B) Amounts of 1 crore and above
The key recommendations for Cyber Fraud management state that banks are required to constitute a special committee for monitoring and follow-up of cases of frauds involving amounts of 1 crore and above exclusively. The Audit Committee of the Board (ACB) may continue to monitor all cases of fraud in general.

Oct/Nov 2009

57. The RBI's Cyber Security Framework for Banks mandates the establishment of a SOC. What does SOC stand for?
(A) System Operations Centre
(B) Security Operations Centre
(C) Standardisation of Controls
(D) Supervisory Oversight Committee

Ans :

(B) Security Operations Centre
In the section on the Cyber Security Framework in Banks, the text mentions that an arrangement for continuous surveillance mandates that a SOC be set up. It clarifies that this Centre ensures continuous surveillance and stays updated on emerging cyber threats. SOC stands for Security Operations Centre.

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Oct/Nov 2022

5. In the context of cyber threats, what is a "threat actor"?
(A) A type of antivirus software designed to neutralize threats
(B) A regulatory body that defines cybersecurity policies
(C) An individual or group that takes part in a malicious act against IT assets
(D) A security analyst responsible for monitoring network traffic

Ans :

(C) An individual or group that takes part in a malicious act against IT assets
A threat actor is defined as any individual or a group of people who participate in a malicious act with the intent to cause harm to an organization's IT assets. These assets include computers, devices, systems, or networks. Threat actors are the source of a cyber attack and can have various motivations and affiliations.

May/June 2018

6. Which category of threat actor is primarily motivated by financial gain or obtaining information through illegal access to hardware and data?
(A) Business competitors
(B) Criminals
(C) Current or former employees
(D) Cybercriminals

Ans :

(B) Criminals
The text distinguishes between different types of threat actors. 'Criminals' are specifically categorized as those who are motivated by financial gain or the acquisition of information. They achieve this by illegally accessing hardware and data or by disrupting business operations with malicious intent, often by compromising client information for their own benefit.

Oct/Nov 2016

7. Consider the following statements about threat actors:
1. Business competitors can be threat actors.
2. Current or former employees can compromise information, but only intentionally.
3. Cybercriminals can be individuals or groups causing a malicious cyber attack.

Which of the above statements is/are correct?
(A) 1 and 2 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 3 only
The text classifies threat actors into several categories. Business competitors and cybercriminals (individuals or groups) are explicitly mentioned. However, the description for current or former employees states they can compromise information either "accidentally or intentionally." Therefore, statement 2, which limits their actions to only intentional compromise, is incorrect, making statements 1 and 3 correct.

May/June 2014

8. Which of the following is NOT listed among the common cyber threats to a bank?
(A) Physical security breach
(B) Identity Theft
(C) Hacking
(D) Malware

Ans :

(A) Physical security breach
The text provides a list of common cyber threats faced by banks in the digital realm. This list includes identity theft, data breach, hacking, malware, viruses, ransomware, and phishing, among others. A physical security breach, while a serious threat to a bank, is not classified as a cyber threat, which specifically pertains to threats in the digital environment.

Oct/Nov 2007

9. What type of cyber attack involves fraudulent attempts to obtain sensitive information such as usernames, passwords, and credit card details by disguising as a trustworthy entity in an electronic communication?
(A) Ransomware
(B) Distributed Denial-of-Service (DDoS)
(C) Phishing/Vishing/Smishing/Pharming
(D) Cyber Squatting

Ans :

(C) Phishing/Vishing/Smishing/Pharming
Phishing and its variants (Vishing for voice, Smishing for SMS) are social engineering attacks used to deceive individuals into divulging

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CHAPTER 49

Operational Aspects of Cyber crimes/ Fraud Risk Management in Cyber Tech

Oct/Nov 2018

1. According to the evolving landscape of financial crime, which type of criminal activity is growing at an alarming rate and may soon replace many conventional financial crimes?
(A) Physical bank robbery
(B) Cybercrime
(C) Insider trading
(D) Check fraud

Ans :

(B) Cybercrime
Due to the virtual presence of banks and the anonymity offered by the internet, cybercrime is expanding rapidly. This trend suggests it could supersede traditional financial crimes, as threat actors can easily commit offenses like identity theft and unauthorized access to bank information, leading to massive data breaches, which are increasingly worrisome for the financial sector.

May/June 2025

2. What is the primary motivation for committing fraud, as distinct from other types of crime?
(A) Gaining a financial advantage
(B) Political motivation
(C) Personal passion or curiosity
(D) Discovering a system vulnerability

Ans :

(A) Gaining a financial advantage
Fraud is specifically defined as a type of crime committed for the purpose of gaining a financial advantage. It involves the intentional use of deception to acquire an unfair monetary or other advantage over another individual or corporation. This distinguishes it from other criminal activities which may have varied motivations, such as political or personal reasons.

Oct/Nov 2010

3. Which of the following best defines cybercrime?
(A) The intentional use of deception to acquire money
(B) A malicious act perpetrated for political reasons only
(C) Any criminal act that involves the use of computers or networks
(D) An act of disrupting business for competitive advantage

Ans :

(C) Any criminal act that involves the use of computers or networks
Cybercrime is broadly defined as any criminal activity that necessitates the involvement of computers or networks to be executed. This encompasses a wide range of illegal activities, from identity theft and data breaches to online scams and extortion. It is the use of technology as a tool for crime that characterizes an act as cybercrime.

May/June 2005

4. Which of the following is NOT listed as a risk for banks arising from cyber attacks?
(A) Reputational damage
(B) Regulatory penalties
(C) Critical Data loss/breach
(D) Increased employee turnover

Ans :

(D) Increased employee turnover
The text lists several significant risks for banks stemming from cyber attacks, including financial loss, critical data loss, business disruption, reputational damage, and regulatory penalties. While a severe cyber incident might indirectly affect employee morale, increased employee turnover is not explicitly identified as a direct risk in the provided material, unlike the other listed consequences.

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May/June 2020

58. What is a Cyber Crisis Management Plan (CCMP) as per the RBI's framework?

(A) A comprehensive plan to educate all bank customers and the general public about prevalent cyber threats.

(B) A detailed technology strategy for investing in and deploying new security hardware and software.

(C) A formal internal procedure for reporting minor security incidents and rule violations to the IT department.

(D) A plan that should be immediately evolved and be part of the overall Board-approved strategy for handling major cyber incidents.

Ans :

(D) A plan that should be immediately evolved and be part of the overall Board-approved strategy for handling major cyber incidents.

The RBI's Cyber Security Framework requires banks to have a Cyber Crisis Management Plan (CCMP). It specifies that this plan should be immediately evolved and must be integrated into the overall strategy approved by the bank's Board. This ensures a high-level, strategic approach to managing and responding to significant cyber crises.

Oct/Nov 2013

59. A customer files a complaint against a bank under the Integrated Ombudsman Scheme, 2021. The Ombudsman passes an Award granting the customer compensation of ₹15 lakhs for consequential loss and an additional ₹1 lakh for mental anguish. The bank is aggrieved by this decision. Within how many days must the bank prefer an appeal before the Appellate Authority?

(A) 15 days from the date the Ombudsman's office formally issues the Award

(B) 45 days from the date the Ombudsman's office formally issues the Award

(C) 60 days from the date the bank receives the customer's letter of acceptance of the Award

(D) 30 days from the date the bank receives the customer's letter of acceptance of the Award

Ans :

(D) 30 days from the date the bank receives the customer's letter of acceptance of the Award

The text specifies the appeal process for a Regulated Entity. An appeal can be preferred within 30 days. Crucially, it clarifies that for an appeal by a Regulated Entity, this 30-day period begins on the date the Entity receives the complainant's letter of acceptance of the Award, not from the date of the award itself.

May/June 2011

60. Under the RBI's Integrated Ombudsman Scheme, 2021, what is the maximum compensation an Ombudsman can award for consequential loss suffered by the complainant?

(A) Rupees 10 lakh

(B) Rupees 1 crore

(C) Rupees 20 lakh

(D) There is no limit on the compensation amount.

Ans :

(C) Rupees 20 lakh

The scheme sets a specific limit on the compensation an Ombudsman can award. The text states that the Ombudsman shall not have the authority to issue an award directing payment of compensation in an amount greater than the complainant's consequential loss or Rupees 20 lakh, whichever is less, in addition to the amount at issue.

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sensitive personal information. Attackers masquerade as legitimate institutions to trick victims. Pharming is a related attack that redirects users to a fraudulent website, even if they type the correct web address, to steal their credentials.

May/June 2023

10. Cybersecurity risk mitigation is divided into three primary categories. What are they?
(A) Prevention, Detection, and Remedy
(B) Assessment, Analysis, and Reporting
(C) Hardware, Software, and Policies
(D) Internal, External, and Hybrid

Ans :

(A) Prevention, Detection, and Remedy
The practice of cybersecurity risk mitigation involves implementing policies and procedures to reduce the overall risk or impact of a cyber threat. This practice is broadly divided into three core categories: prevention, which aims to stop attacks from happening; detection, which focuses on identifying attacks as they occur; and remedy, which involves responding to and recovering from incidents.

Oct/Nov 2009

11. Based on the table "Essential mitigation strategies for business continuity," what is the stated purpose of "Application whitelisting"?
(A) To remediate known security vulnerabilities
(B) To limit powerful access to systems
(C) To protect against risky activities and credential theft
(D) To control the execution of unauthorized software

Ans :

(D) To control the execution of unauthorized software
The provided table explicitly pairs each mitigation strategy with its specific purpose. For the strategy "Application whitelisting," the corresponding purpose listed is "to control the execution of unauthorized software." This security measure works by maintaining a list of approved applications, preventing any other software from running, thereby blocking potentially malicious or unapproved programs.

May/June 2016

12. Referring to the table of "Essential mitigation strategies," which strategy is specifically aimed at protecting against risky activities and credential theft?
(A) Patching operating systems
(B) Multifactor authentication
(C) Application hardening
(D) Daily backups

Ans :

(B) Multifactor authentication
The table of essential mitigation strategies clearly states that the purpose of implementing multifactor authentication (MFA) is "to protect against risky activities and credential theft." MFA adds a crucial layer of security by requiring users to provide two or more verification factors to gain access, making it significantly harder for unauthorized users to compromise an account.

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Oct/Nov 2025

13. Match the mitigation strategy from List-I with its corresponding purpose from List-II.

	List-I (Strategy)		**List-II (Purpose)**
P.	Patching applications	1.	To block untrusted macros
Q.	Restricting administrative privileges	2.	To remediate known security vulnerabilities
R.	Configuring Microsoft Office macro settings	3.	To maintain the availability of uninfected critical data
S.	Daily backups	4.	To limit powerful access to systems

(A) P-2, Q-4, R-1, S-3
(B) P-4, Q-2, R-3, S-1
(C) P-2, Q-1, R-4, S-3
(D) P-3, Q-4, R-1, S-2

Ans :

(A) P-2, Q-4, R-1, S-3
According to the provided table, patching applications remediates known vulnerabilities (P-2). Restricting administrative privileges limits powerful system access (Q-4). Configuring MS Office macro settings blocks untrusted macros (R-1). Daily backups are performed to maintain the availability of uninfected critical data in case of a security incident like a ransomware attack (S-3).

Ans :

(B) VAPT exercise
The scenario perfectly describes the process of a VAPT exercise. Banks conduct "periodical VAPT exercises through approved third-party vendors," and the findings ("observations") are "classified into High, Medium and Low risks." It is also stated that mitigating these vulnerabilities and reporting to top management is mandatory.

Oct/Nov 2017

33. What is Network Behaviour Anomaly Detection (NBAD) technology a complement to?
(A) Physical security access control systems
(B) Employee background check procedures
(C) Systems that detect threats based on packet signatures
(D) Financial transaction auditing systems

Ans :

(C) Systems that detect threats based on packet signatures
NBAD is a complementary technology to systems that detect security threats based on packet signatures. While signature-based systems are effective against known threats, NBAD is designed to detect threats by identifying deviations from normal network behavior, making it useful for threats that signature-based systems might miss, like zero-day attacks.

May/June 2008

34. In which two instances are NBAD-based systems particularly helpful where signature-based systems may fail?
(A) Detecting known viruses and standard malware
(B) Blocking spam emails and phishing links
(C) Preventing unauthorized physical access and tailgating
(D) Identifying new zero-day attacks and encrypted threat traffic

Ans :

(D) Identifying new zero-day attacks and encrypted threat traffic
NBAD systems excel in two specific scenarios. First, they can help detect new "zero-day attacks" for which no signature exists. Second, they can identify malicious activity even when "the threat traffic is encrypted," such as in a botnet's command and control channel, by analyzing behavioral patterns rather than packet contents.

Oct/Nov 2013

35. For an NBAD solution to be optimally effective, what must be established first?
(A) A baseline of normal network or user behavior
(B) A list of all approved IP addresses
(C) The latest antivirus signature database
(D) A complete inventory of all hardware assets

Ans :

(A) A baseline of normal network or user behavior
The effectiveness of NBAD hinges on its ability to spot anomalies. To do this, it must first understand what is normal. A baseline of normal network or user behavior must be established over a period of time. Any departure from this established baseline is then flagged as anomalous and potentially threatening.

May/June 2015

36. Which of the following is NOT one of the NBAD technology/techniques applied in network and security monitoring?
(A) Log analysis
(B) User authentication management
(C) Packet inspection systems
(D) Flow monitoring systems

Ans :

(B) User authentication management
NBAD technology and techniques are applied in four domains: (i) Log analysis, (ii) Packet inspection systems, (iii) Flow monitoring systems, and (iv) Route analytics. User authentication management, while a critical security function, is a separate domain and is not listed as a technique or application area for NBAD.

Oct/Nov 2012

37. An effective Cyber Incident Response (CIR) plan for a bank must include which two sets of capabilities?
(A) Sales and Marketing
(B) Proactive and Responsive
(C) Legal and Compliance
(D) Development and Operations

Ans :

(B) Proactive and Responsive

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Ans :

(C) To detect, analyse, and respond to cybersecurity issues

A Security Operations Centre (SOC) houses an information security team tasked with continuously monitoring and assessing an organization's security posture. The fundamental purpose of the SOC team is to use a combination of technology, policies, and procedures to detect, analyze, and respond to cybersecurity incidents, ensuring that security issues are addressed promptly.

Oct/Nov 2019

19. The security of a bank's digital assets is governed by guidelines and directions from which regulatory body?

(A) CERT-In
(B) SEBI
(C) RBI
(D) IRDAI

Ans :

(C) RBI

The security of a bank's digital assets is governed by the Reserve Bank of India's (RBI) Security Framework for baseline guidelines (dt. 02.06.2016) and its Master Direction on Digital Payment Security Controls (vide Dt. 18.02.2021). This indicates the RBI's central role in mandating cybersecurity measures for banks.

May/June 2009

20. Which of the following is NOT listed as a commonly deployed tool or measure by banks to protect against cyber threats?

(A) SIEM (Security Information and Event Management)
(B) WAF (Web Application Filtering)
(C) PIM (Privileged Identity Management)
(D) CRM (Customer Relationship Management)

Ans :

(D) CRM (Customer Relationship Management)

The chapter lists numerous tools and measures used by banks for cybersecurity, including SIEM, VAPT, NBAD, Anti-APT, Anti-DDoS, PIM, FIM, and WAF. A Customer Relationship Management (CRM) system is a tool for managing interactions with customers and is not a cybersecurity measure, unlike the other options which are all security-focused technologies or practices.

Oct/Nov 2011

21. What does the acronym PIM stand for in the context of cybersecurity measures adopted by banks?

(A) Personal Information Management
(B) Protocol Integrity Monitoring
(C) Proactive Incident Mitigation
(D) Privileged Identity Management

Ans :

(D) Privileged Identity Management

In the list of common measures adopted by banks against cyber threats, PIM is identified as "Privileged Identity Management." This is a cybersecurity solution that helps organizations manage, control, and monitor access to critical assets by accounts with elevated or "privileged" permissions. It is crucial for preventing the misuse of powerful administrative accounts.

May/June 2010

22. In a typical Security Operations Centre (SOC) structure, who usually heads the operations?

(A) Chief Executive Officer (CEO)
(B) Chief Information Security Officer (CISO)
(C) Chief Technology Officer (CTO)
(D) Head of Internal Audit

Ans :

(B) Chief Information Security Officer (CISO)

The text specifies that, typically, the Chief Information Security Officer (CISO) is the executive who heads the operations of the Security Operations Centre (SOC). The CISO is responsible for the overall security posture of the organization, and the SOC team, comprising analysts and engineers, reports up to this role to manage cybersecurity incidents.

Oct/Nov 2024

23. A bank's SOC team observes anomalous activity on its network, servers, and databases that could indicate a security breach. According to the role of a SOC, what is the team's immediate responsibility?

(A) To shut down all banking operations immediately
(B) To contact law enforcement and media outlets
(C) To ensure the issue is recognised, assessed, defended, investigated, and reported accurately

NODIA

May/June 2012

14. What is the fundamental principle of a "Defence-in-Depth" security strategy?
(A) Relying on a single, powerful security control for maximum protection
(B) Placing a succession of security procedures and controls throughout a network
(C) Focusing security efforts exclusively on the network perimeter
(D) Outsourcing all security functions to a third-party vendor

Ans :

(B) Placing a succession of security procedures and controls throughout a network
Defence-in-Depth is a strategy that involves layering a series of security controls and procedures throughout a computer network. The core idea is that if one security measure fails, another is in place to thwart the attack. This layered approach provides redundancy and significantly increases the difficulty for threat actors to successfully compromise the network.

Oct/Nov 2014

15. What is a key advantage of implementing a Defence-in-Depth strategy?
(A) It prevents single points of failure and increases the effort required for a successful attack
(B) It reduces the cost of security by using only one tool
(C) It simplifies network architecture for easier management
(D) It guarantees the complete prevention of all cyber dangers

Ans :

(A) It prevents single points of failure and increases the effort required for a successful attack
A major benefit of the Defence-in-Depth strategy is its ability to eliminate single points of failure. By layering defenses, it ensures that the failure of one control does not lead to a total system compromise. This approach significantly increases the time, complexity, and resources a threat actor needs to breach the network, improving detection chances.

May/June 2019

16. Examine the "Defense in Depth Layers" diagram. Which layer is depicted as the innermost core, representing the ultimate asset to be protected?
(A) Host
(B) Data
(C) Application
(D) Internal Network

Ans :

(B) Data
The "Defense in Depth Layers" diagram illustrates a concentric circle model where security controls are layered. The innermost circle, representing the most critical asset that all other layers are designed to protect, is labeled "Data." This signifies that the ultimate goal of this multi-layered security strategy is to safeguard the organization's information and data.

Oct/Nov 2006

17. In the "Defense in Depth Layers" diagram, which layer is situated immediately outside the "Perimeter" layer?
(A) Internal Network
(B) Physical
(C) Host
(D) Application

Ans :

(B) Physical
The diagram shows the layers of defense in a specific order, moving from the outside in. The outermost layer is "Policies, Procedures, Awareness," followed by "Physical" security. The "Perimeter" layer is inside the "Physical" layer. Therefore, the layer situated immediately outside the "Perimeter" is the "Physical" layer, which controls physical access to network components.

May/June 2021

18. What is the primary purpose of a bank's Security Operations Centre (SOC)?
(A) To develop new banking applications and software
(B) To handle customer service inquiries and complaints
(C) To detect, analyse, and respond to cybersecurity issues
(D) To conduct marketing campaigns for new digital products

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May/June 2013

28. What is the primary function of Security Information and Event Management (SIEM) software?
(A) To detect, analyse, and respond to security threats by consolidating and correlating event data
(B) To perform vulnerability assessments and penetration testing
(C) To filter web traffic and block access to malicious websites
(D) To manage and monitor privileged user accounts

Ans :

(A) To detect, analyse, and respond to security threats by consolidating and correlating event data
SIEM is a platform for next-generation threat management. Its core function is to collect and aggregate log data from various sources, such as applications and network hardware, for real-time analysis. It uses event correlation, analytics, and reporting to provide security teams with comprehensive insight into and a record of security events across the IT environment.

Oct/Nov 2021

29. SIEM software combines which two types of technologies?
(A) VAPT and DAST
(B) IDS and IPS
(C) SIM and SEM
(D) WAF and NAC

Ans :

(C) SIM and SEM
SIEM software combines SIM (Security Information Management) and SEM (Security Event Management) technologies. SIM focuses on log collection and reporting, while SEM deals with real-time event monitoring and correlation. SIEM integrates these two functions into a single, comprehensive security solution.

May/June 2024

30. What is the main objective of VAPT (Vulnerability Assessment and Penetration Testing)?
(A) To identify vulnerabilities in the network, server, and system infrastructure
(B) To respond to active security incidents and breaches
(C) To provide security awareness training to employees
(D) To create backups of critical organizational data

Ans :

(A) To identify vulnerabilities in the network, server, and system infrastructure
The primary goal of both Vulnerability Assessment and Penetration Testing (VAPT) is to identify security weaknesses. These services are designed to find vulnerabilities within an organization's network, servers, and overall system infrastructure. By discovering these flaws, organizations can take steps to mitigate them before they are exploited by threat actors.

NODIA

Oct/Nov 2008

31. What is the key difference between Vulnerability Assessment and Penetration Testing?
(A) Vulnerability assessment is manual, while penetration testing is automated.
(B) Vulnerability assessment is for networks, while penetration testing is for applications.
(C) Vulnerability assessment finds flaws, while penetration testing does not.
(D) Vulnerability assessment focuses on internal security, while penetration testing focuses on external threats.

Ans :

(D) Vulnerability assessment focuses on internal security, while penetration testing focuses on external threats.
Although complementary, the two services have distinct focuses. Vulnerability assessment focuses on internal organisational security, whereas penetration testing focuses on external real-world threats. The former looks for known vulnerabilities from an internal perspective, while the latter simulates an attack from an external adversary to test defenses.

May/June 2006

32. A bank's board mandates a periodic security exercise to be conducted by an approved third-party vendor. The observations are to be classified into High, Medium, and Low risks, and mitigation must be reported to top management. Which security service does this describe?
(A) SIEM implementation
(B) VAPT exercise
(C) SOC team training
(D) Daily data backup

(D) To wait for the system to automatically resolve the issue

Ans :

(C) To ensure the issue is recognised, assessed, defended, investigated, and reported accurately
The core function of a SOC, when faced with anomalous activity, is to manage the incident lifecycle. This involves guaranteeing that potential security issues are properly recognized, their impact is assessed, defenses are mounted, a thorough investigation is conducted, and the incident is reported accurately to the appropriate authorities or internal teams for remediation.

May/June 2017

24. Based on the "Indicative diagram of a Security Operations Centre (SOC)," what component is placed between the "Border Router" and the "Router" that serves the "Employee Network"?
(A) Web Content Filter
(B) NetFlow NAC
(C) Perimeter Firewall
(D) IPS (Intrusion Prevention System)

Ans :

(D) IPS (Intrusion Prevention System)
The diagram illustrates the flow of network traffic and the placement of various security controls. Following the path from the "Internet" through the "Border Router," the diagram clearly shows an "IPS" (Intrusion Prevention System) and "Breach Detection" situated before the traffic reaches the internal "Router." This placement allows the IPS to inspect and block malicious traffic.

Oct/Nov 2005

25. According to the SOC diagram, if a device on the "Guest and Mobile Network" is identified as non-compliant, where is it moved?
(A) To the Quarantine Network
(B) To the Employee Network
(C) To the Data Center
(D) It is immediately disconnected

Ans :

(A) To the Quarantine Network
The diagram shows a "NetFlow NAC" (Network Access Control) component managing network access. Arrows from "Guests," "Tablets," and "Phones" point to this NAC. An arrow from the "Non-compliant Device" icon points directly to the "Quarantine Network." This indicates that devices failing compliance checks are isolated in a restricted network segment for remediation.

May/June 2020

26. As per RBI guidelines, what must banks set up and operationalize to enhance their cybersecurity posture?
(A) A dedicated marketing team for cyber awareness
(B) A Cyber Security Operation Centre (C-SOC)
(C) A separate branch for handling digital-only customers
(D) An internal social media platform for employees

Ans :

(B) A Cyber Security Operation Centre (C-SOC)
The text explicitly states that "Banks need to Set up and Operationalize (C-SOC) as per the RBI guidelines." This requirement highlights the regulatory mandate for banks to establish a dedicated Cyber Security Operation Centre to manage and respond to the growing landscape of cyber threats in a structured and efficient manner, ensuring regulatory compliance.

Oct/Nov 2015

27. Which of the following is NOT listed as a required aspect to be addressed by a Cyber SOC?
(A) Top Management/Board Briefing on Threat Intelligence
(B) Analytics with a dashboard showing the Geo-location of IPs
(C) Annual customer satisfaction surveys on digital banking
(D) Incident investigation, forensics and deep packet analysis

Ans :

(C) Annual customer satisfaction surveys on digital banking
The requirements for a Cyber SOC focus on technical and operational security capabilities. These include briefing top management, using dashboards, enforcing policy, identifying root causes, conducting forensics and deep packet analysis, and using analytics. Customer satisfaction surveys, while important for the bank, are not part of the core technical functions of a C-SOC.

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To stay ahead of the cybersecurity curve, banks must develop a robust Cyber Incident Response (CIR) plan. This plan should encompass both proactive capabilities, which prepare the organization for incidents, and responsive capabilities, which dictate how the organization reacts during and after an incident. This dual approach ensures comprehensive incident management.

May/June 2011

38. Which of the following are categorized as "Proactive Capabilities" in an incident response plan?
(A) Preparation and Detection Analysis
(B) Containment and Eradication
(C) Eradication and Recovery
(D) Recovery and Follow-up

Ans :

(A) Preparation and Detection Analysis
The incident response plan is divided into proactive and responsive phases. The "Proactive Capabilities" are those activities undertaken before an incident is in full swing. These are identified as "Preparation" (getting ready for an incident) and "Detection Analysis" (identifying that an incident is occurring), which lay the groundwork for an effective response.

Oct/Nov 2020

39. Which of the following are categorized as "Responsive Capabilities" in an incident response plan?
(A) Preparation and Identification
(B) Detection and Analysis
(C) Containment, Eradication, and Recovery
(D) Prevention and Follow-up

Ans :

(C) Containment, Eradication, and Recovery
"Responsive Capabilities" are the actions taken once an incident has been detected. These are listed as "Containment" (limiting the damage), "Eradication" (removing the cause of the incident), and "Recovery" (restoring systems to normal operation). These three phases constitute the active response to a security breach or cyber attack.

May/June 2022

40. According to the "Phases of an Effective Incident Response Plan" diagram, what is the step that occurs immediately after "Incident Identification"?
(A) Containment
(B) Eradication
(C) Recovery
(D) Preparation and Prevention

Ans :

(A) Containment
The diagram depicts a cyclical process for incident response. The flow shows that once an incident is identified ("Incident Identification"), the immediate next step is "Containment." This logical sequence prioritizes limiting the scope and impact of the breach before moving on to removing the threat and restoring the affected systems to their normal operational state.

Oct/Nov 2023

41. In the incident response process diagram, what phase follows "Cleansing and Eradication"?
(A) Incident Identification
(B) Containment
(C) Follow-up
(D) Recovery

Ans :

(D) Recovery
The incident response lifecycle diagram shows a clear progression of steps. After the threat has been removed in the "Cleansing and Eradication" phase, the next logical step is "Recovery." This phase focuses on restoring systems, data, and services to their normal, pre-incident state, ensuring that business operations can resume safely and efficiently.

May/June 2007

42. What is the final phase of the incident response process that leads back to preparation, signifying a continuous improvement cycle?
(A) Recovery
(B) Follow-up
(C) Containment
(D) Identification

Ans :

(B) Follow-up
The diagram shows "Follow-up" as the final stage of the incident response process. An arrow from "Follow-up" points back to "Preparation and Prevention," illustrating the cyclical nature of incident response. This phase involves analyzing

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Ans :

(C) To protect against vulnerable functionality within an application

The table of mitigation strategies specifies that "Application hardening" is done "to protect against vulnerable functionality." This process involves configuring an application in the most secure manner possible, which can include disabling unnecessary features, changing default passwords, and applying security configurations to reduce the application's attack surface and protect its weak points.

May/June 2021

60. Consider the following excerpt about threat actors: "A threat actor is an individual or a group of people that take part in a malicious act that is intended to cause harm to the IT assets... Threat actors can be broadly classified as: Cybercriminals... Criminals... Business competitors... Current or former employees..." Based on this text, which of the following statements is incorrect?

(A) A threat actor's intent is to cause harm to IT assets.

(B) All threat actors are external to the organization.

(C) A business competitor can be classified as a threat actor.

(D) A threat actor can be a single person.

Ans :

(B) All threat actors are external to the organization.

The provided text explicitly lists "Current or former employees" as a category of threat actor. Since employees are internal to the organization, the statement that all threat actors are external is incorrect. This highlights that threats can originate from both outside (cybercriminals, competitors) and inside (malicious or negligent employees) an organization.

NODIA

(B) Cybercrime is any criminal act involving computers or networks.
(C) Fraud can only be conducted against individuals, not corporations.
(D) Cybercrime can be perpetrated for reasons like political motivation or personal passion.

Ans :

(C) Fraud can only be conducted against individuals, not corporations.
Fraud is an act of deception for financial gain and can be conducted against individuals as well as against corporations. Therefore, the statement that fraud can only be conducted against individuals is incorrect. Both individuals and large organizations can be targets of fraudulent schemes.

May/June 2018

48. Consider the following statements regarding the handling of cyber risk by banks:
1. Banks have established Security Operation Centres (SOCs) to monitor threats.
2. The workforce of a SOC consists mainly of financial auditors.
3. Some SOCs offer advanced capabilities like malware reverse engineering.

Which of the statements above are correct?
(A) 1 and 3 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(A) 1 and 3 only
Banks have established SOCs to monitor threats (Statement 1 is correct). The majority of a SOC's workforce are security analysts, not financial auditors (Statement 2 is incorrect). Some SOCs do offer advanced capabilities such as forensic analysis, cryptanalysis, and malware reverse engineering to evaluate occurrences (Statement 3 is correct).

Oct/Nov 2016

49. Assertion (A): A Defence-in-Depth strategy provides redundancy if one security method fails.
Reason (R): The strategy involves using a succession of security procedures and controls placed throughout a computer network.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion that Defence-in-Depth provides redundancy is true. The reason, which states that it uses a succession of layered controls, is also true and directly explains how this redundancy is achieved. If one layer of control is bypassed, the next layer is in place to stop the attack, thus providing the stated redundancy.

May/June 2014

50. Which of the following is an incorrect pairing of a cyber threat and its description?
(A) DDoS: Overwhelms a system with traffic from a single source to make it unavailable.
(B) Ransomware: Encrypts data and demands a payment for its release.
(C) Identity Theft: Stealing personal information to impersonate someone else.
(D) Hacking: Unauthorized access to a computer system or network.

Ans :

(A) DDoS: Overwhelms a system with traffic from a single source to make it unavailable.
DDoS stands for Distributed Denial-of-Service. While it does aim to make a system unavailable by overwhelming it with traffic, the "Distributed" aspect means the traffic comes from multiple, distributed sources, not a single source. A Denial-of-Service (DoS) attack comes from a single source, but a DDoS attack is more complex and harder to defend against.

Oct/Nov 2007

51. Which of the following aspects is a requirement for a Cyber SOC (C-SOC) as per the provided text?
1. Dynamic Behaviour Analysis for collecting Indicators of Compromise (IOC).
2. Methods to identify the root cause of attacks.
3. Dashboards and oversight for management.
4. Development of new mobile banking features.

(A) 1, 2 and 3 only
(B) 1 and 3 only
(C) 2, 3 and 4 only
(D) 1, 2, 3 and 4

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Ans :

(A) 1, 2 and 3 only
The requirements for a C-SOC include Dynamic Behaviour Analysis, methods for root cause analysis, and dashboards for oversight. The development of new banking features is a function of a development team, not a core responsibility of a Cyber Security Operation Centre, which is focused on defense and response.

May/June 2023

52. Identify the correct statement regarding VAPT.
(A) VAPT is conducted by a bank's internal marketing team.
(B) It is mandatory to mitigate discovered vulnerabilities and report to top management.
(C) It is optional for banks to mitigate the vulnerabilities found during VAPT.
(D) Penetration testing focuses on internal organizational security.

Ans :

(B) It is mandatory to mitigate discovered vulnerabilities and report to top management.
For VAPT exercises, it is mandatory to mitigate discovered vulnerabilities and report the status to top management. This highlights the critical importance and regulatory expectation of addressing security weaknesses discovered through these tests. The other statements contradict the VAPT process as described for banks.

Oct/Nov 2009

53. Which of these is NOT a characteristic or technique of NBAD?
(A) It generates an alarm if a strange event or trend is detected.
(B) It can monitor the behavior of individual network subscribers.
(C) It relies exclusively on a database of pre-identified known threat signatures.
(D) It can be applied to log analysis and packet inspection systems.

Ans :

(C) It relies exclusively on a database of pre-identified known threat signatures.
The defining feature of NBAD is that it works by detecting anomalies from a normal baseline, not by matching signatures. In fact, it is presented as a complementary technology to signature-based systems precisely because it does not rely on them. This allows NBAD to be effective against new or unknown threats for which no signature exists.

May/June 2016

54. Match the layer from the "Defense in Depth" model (List-I) with its likely function (List-II).

	List-I (Layer)		**List-II (Function)**
P.	Application	1.	Protecting servers and workstations from malware
Q.	Host	2.	Securing the code of banking software.
R.	Perimeter	3.	Encrypting customer records and transaction details.
S.	Data	4.	Using firewalls to control traffic entering the network.

(A) P-4, Q-1, R-2, S-3
(B) P-2, Q-1, R-4, S-3
(C) P-2, Q-3, R-4, S-1
(D) P-3, Q-4, R-1, S-2

Ans :

(B) P-2, Q-1, R-4, S-3
The Application layer involves securing software code (P-2). The Host layer involves protecting individual endpoints like servers and workstations (Q-1). The Perimeter layer is the network boundary, protected by firewalls (R-4). The Data layer, the core asset, is protected through measures like encryption to secure the information itself (S-3).

Oct/Nov 2025

55. The following excerpt describes threats in online banking: "In banking, as more and more transactions are conducted online, financial institutions must not only combat the fraud schemes, but also protect their customer-facing portals from Man-in-the-Middle and Distributed Denial of Service attacks as the online banking model continues to evolve." Based on this text, what specific types of attacks are mentioned as threats to customer-facing portals?
(A) Man-in-the-Middle and Distributed Denial of Service
(B) Insider Fraud and Check Fraud

NODIA

(C) Phishing and Ransomware
(D) Web Fraud and Identity Theft

Ans :

(A) Man-in-the-Middle and Distributed Denial of Service
The provided paragraph explicitly names two types of attacks that financial institutions must guard their customer-facing portals against. It states they must "...protect their customer-facing portals from Man-in-the-Middle and Distributed Denial of Service attacks..." This highlights the specific threats that directly target the availability and integrity of online banking services for customers.

May/June 2012

56. What is the primary difference between a 'Crime' and 'Fraud' as described in the text?
(A) Crime is always violent, whereas fraud is non-violent.
(B) Fraud is specifically for financial gain, while a crime can have various motivations like political or personal passion.
(C) Crime involves computers, whereas fraud does not.
(D) Fraud is legal in some contexts, whereas crime is always illegal.

Ans :

(B) Fraud is specifically for financial gain, while a crime can have various motivations like political or personal passion.
The text distinguishes the two by their motivation. It defines fraud as a type of crime committed for the purpose of financial gain. In contrast, it notes that other criminal activity (which it contextually equates with cybercrime) can be perpetrated for a variety of other reasons, including political motivation, personal passion, or simple curiosity.

Oct/Nov 2014

57. Which two of the following are listed as essential mitigation strategies for business continuity?
1. Patching operating systems
2. Daily backups
3. Conducting customer surveys
4. Increasing marketing budget

(A) 1 and 4
(B) 2 and 3
(C) 1 and 2
(D) 3 and 4

Ans :

(C) 1 and 2
The table of "Essential mitigation strategies for business continuity" explicitly lists both "Patching operating systems" (to remediate known security vulnerabilities) and "Daily backups" (to maintain the availability of uninfected critical data). Conducting customer surveys and increasing marketing budgets are business functions unrelated to the technical mitigation strategies for ensuring business continuity against cyber threats.

May/June 2019

58. A bank wants to implement a security solution that can consolidate logs from its firewalls, servers, and applications in one place. The solution should also correlate events from these different sources to identify potential threats in real-time and generate alerts. Which technology should the bank deploy?
(A) SIEM
(B) VAPT
(C) NBAD
(D) SOC

Ans :

(A) SIEM
This scenario describes the exact functionality of a Security Information and Event Management (SIEM) system. A SIEM platform is designed to consolidate multiple data points (logs from firewalls, servers, etc.), perform event correlation and analysis, and facilitate real-time threat detection and response. This matches the bank's requirements for centralized monitoring and threat identification.

Oct/Nov 2006

59. What does the term "Application hardening" refer to as a mitigation strategy?
(A) To control the execution of unauthorized software
(B) To remediate known security vulnerabilities in applications
(C) To protect against vulnerable functionality within an application
(D) To block untrusted macros in office documents

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the incident, documenting lessons learned, and improving security controls and procedures to better prepare for future events.

Oct/Nov 2018

43. A bank's systems were compromised by ransomware. After identifying the breach, the IT team isolated the affected servers from the rest of the network. According to the incident response lifecycle, this action is part of which phase?
(A) Eradication
(B) Recovery
(C) Containment
(D) Preparation

Ans :

(C) Containment
The act of isolating compromised servers is a classic example of containment. The primary goal of the containment phase is to prevent the incident from spreading and causing further damage to other systems within the organization. This action limits the impact of the ransomware, making the subsequent eradication and recovery phases more manageable.

May/June 2025

44. After a phishing attack, a bank's security team removed the malicious emails from all employee inboxes and patched the vulnerability that allowed the attack to succeed. This set of actions belongs to which phase of the incident response plan?
(A) Incident Identification
(B) Recovery
(C) Containment
(D) Cleansing and Eradication

Ans :

(D) Cleansing and Eradication
The "Cleansing and Eradication" phase involves removing the root cause and all artifacts of the security incident. In this case, removing the malicious emails and patching the exploited vulnerability constitute the complete removal of the threat from the environment. This action ensures the attacker cannot use the same point of entry again.

Oct/Nov 2010

45. According to the "Let Us Sum Up" section, what is a key benefit of adopting a Cyber Security Framework?
(A) It enables banks to better identify, assess, manage, and reduce their exposures to cyber risks.
(B) It eliminates the need for third-party service providers.
(C) It guarantees that no new threats, products, or processes will introduce risk.
(D) It replaces the need for Board level involvement in cybersecurity.

Ans :

(A) It enables banks to better identify, assess, manage, and reduce their exposures to cyber risks.
Adopting a Cyber Security Framework provides a structured approach for banks. It helps them to systematically identify, assess, manage, and ultimately reduce their cyber risk exposures, including those that emanate from third-party vendors. This framework provides a solid foundation for the bank's overall cybersecurity strategy and posture.

May/June 2005

46. What is the role of Board level involvement and guidance in cybersecurity?
(A) To personally configure hardware devices and software applications
(B) To set the right tone at the top and ensure the organization endeavors to stay ahead of adversaries
(C) To conduct real-time monitoring of security logs and incidents
(D) To write the technical security policy for the bank

Ans :

(B) To set the right tone at the top and ensure the organization endeavors to stay ahead of adversaries
Board level involvement and guidance are crucial for setting the "right tone at the top." This leadership drives the organizational culture and commitment needed to prioritize cybersecurity, ensuring that the bank makes a continuous effort to stay ahead of evolving threats.

Oct/Nov 2022

47. Which of the following is an incorrect statement regarding fraud and cybercrime?
(A) Fraud is a type of crime committed for financial gain.

NODIA

CHAPTER 50

Technology Trends in Banking, e-RUPI, Fintech- RegTech Suptech, Hashtag Banking ETC.

Oct/Nov 2017

1. According to the introductory section, which of the following is NOT listed as a factor presenting fertile ground for Fintech development?
   (A) Growing smartphone penetration
   (B) Strict government control over financial data
   (C) Inefficient, traditional financial systems
   (D) Consumer behavioural shifts

   Ans :

   (B) Strict government control over financial data
   The introduction highlights that growing smartphone penetration, inefficient traditional financial systems, and shifts in consumer behaviour are key factors driving Fintech development. Strict government control over financial data is not mentioned as a contributing factor; in fact, innovations like open banking often rely on controlled data sharing, not stricter control that would stifle development.

May/June 2005

2. What is the primary purpose of banking innovations like Open Banking and Social Banking as mentioned in the text?
   (A) To enhance the customer experience using simple and existing technologies
   (B) To replace traditional branch banking entirely
   (C) To exclusively serve high-net-worth individuals
   (D) To reduce the operational autonomy of the Reserve Bank of India

   Ans :

   (A) To enhance the customer experience using simple and existing technologies
   The text states that banking innovations such as Open Banking and Social Banking are gaining momentum to enhance the customer experience. They achieve this by leveraging simple and existing technologies to offer more convenient and accessible services. The focus is on improving customer interaction and service delivery rather than completely replacing existing banking structures.

Oct/Nov 2023

3. On which date was e-RUPI launched by the National Payments Corporation of India (NPCI)?
   (A) 31st January 2022
   (B) 2nd August 2022
   (C) 2nd August 2021
   (D) 31st January 2021

   Ans :

   (C) 2nd August 2021
   The text explicitly states that e-RUPI was launched on 2nd August 2021 by the National Payments Corporation of India (NPCI). This initiative was introduced as an innovative digital solution to facilitate a seamless one-time payment mechanism for beneficiaries, often for specific purposes defined by the sponsoring organization, such as a government department.

May/June 2014

4. How is an e-RUPI e-Voucher delivered to a beneficiary's mobile phone?
   (A) Through a dedicated mobile banking application only
   (B) As a physical card mailed to the beneficiary's address
   (C) Through an email with an attached PDF file
   (D) As a QR code or an SMS string

   Ans :

   (D) As a QR code or an SMS string
   e-RUPI is designed for accessibility and is delivered to the beneficiary's mobile phone in

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the form of a QR code or an SMS string-based e-Voucher. This method ensures that the voucher can be received and used even by individuals who do not own a smartphone, making it a highly inclusive payment solution.

Oct/Nov 2011

5. Which of the following is a key feature of e-RUPI that allows its use by people without smartphones?
(A) Its integration with all social media platforms
(B) The requirement of a high-speed internet connection
(C) Its offline transaction feature and SMS-based delivery
(D) The mandatory installation of a digital payments app

Ans :

(C) Its offline transaction feature and SMS-based delivery
A significant advantage of e-RUPI is its accessibility to a wide range of users, including those in remote areas without smartphones. This is possible because the e-Voucher can be delivered as an SMS string, and its offline transaction feature allows redemption without requiring a constant internet connection or a dedicated mobile application for payments.

May/June 2021

6. As of 31st January 2022, how many banks were reported to be live on the e-RUPI platform?
(A) 11 Banks
(B) 16 Banks
(C) 21 Banks
(D) 10 Banks

Ans :

(B) 16 Banks
The text provides a specific data point regarding the adoption of the e-RUPI system. It states that as of 31st January 2022, there were 16 banks live on the e-RUPI platform. This indicates the growing acceptance and implementation of this digital voucher system within the Indian banking ecosystem shortly after its launch.

Oct/Nov 2009

7. In the e-RUPI ecosystem, what are the two core categories for which vouchers may be issued?
(A) Business to Business (B2B) and Government to Citizen (G2C)
(B) Retail to Wholesale (R2W) and Corporate to Corporate (C2C)
(C) Person-to-Merchant (P2M) and Business to Government (B2G)
(D) Person-to-Person (P2P) and Business to Consumer (B2C)

NODIA

Ans :

(D) Person-to-Person (P2P) and Business to Consumer (B2C)
The e-RUPI framework allows for issuance in two primary categories: Person-to-Person (P2P) and Business to Consumer (B2C). However, the circular mentioned in the text outlines the specific scope and rules only for the B2C vouchers, which are typically sponsored by organizations for specific consumer-centric activities like healthcare or subsidies.

May/June 2018

8. Who is the 'Sponsor' in the e-RUPI transaction lifecycle?
(A) A corporate, state, or union government department that requests the voucher creation
(B) The end-user or individual for whom the e-RUPI voucher is specifically issued
(C) The financial institution providing the redemption facility to participating merchants
(D) The partner bank that initiates the technical request to create the e-RUPI voucher

Ans :

(A) A corporate, state, or union government department that requests the voucher creation
Within the e-RUPI ecosystem, the 'Sponsor' is the entity that requests the bank to create e-RUPI vouchers. This entity is typically a corporate, a state government department, or a union government department that acts as a business customer of the Issuer Bank and wishes to provide benefits to specific beneficiaries for a defined purpose.

Oct/Nov 2025

9. Which statement about the e-RUPI beneficiary is correct?
(A) The beneficiary must be an existing account holder of the Issuer Bank.
(B) The beneficiary must be the same as the sponsor.

(C) The beneficiary may not be a bank account holder.
(D) The beneficiary must have a credit card for voucher redemption.

Ans :

(C) The beneficiary may not be a bank account holder.
A key aspect of e-RUPI's design for financial inclusion is that the beneficiary is not required to have a bank account. The e-RUPI is issued to a specific person for a specific purpose, and this person can redeem the voucher without needing a pre-existing relationship with a bank, a digital payment app, or a payment card.

May/June 2007

10. Which type of entity is authorized to issue e-RUPI vouchers?
(A) Banks authorized by RBI to issue PPIs and participating as PSPs in the UPI ecosystem
(B) Any Fintech company registered in India with a valid certificate of incorporation
(C) Only public sector banks specifically designated by the central government for this purpose
(D) Any non-banking financial company (NBFC) holding a license for payment services

Ans :

(A) Banks authorized by RBI to issue PPIs and participating as PSPs in the UPI ecosystem
The issuance of e-RUPI is a regulated activity. Only banks that have been authorized by the Reserve Bank of India to issue Prepaid Payment Instruments (PPIs) and are also active participants as Payment Service Providers (PSPs) within the Unified Payments Interface (UPI) ecosystem are permitted to create and issue e-RUPI vouchers.

Oct/Nov 2020

11. What is the maximum value for which a single e-RUPI voucher can be issued?
(A) INR 1,000
(B) INR 5,000
(C) INR 50,000
(D) INR 10,000

Ans :

(D) INR 10,000
The guidelines for e-RUPI specify a ceiling on the value of each individual voucher. According to the text, a single e-RUPI voucher can be issued for a value up to INR 10,000. This limit helps in managing the scope and risk associated with these prepaid digital instruments, which are intended for specific, purpose-based transactions.

May/June 2012

12. Which of the following is NOT a benefit of e-RUPI for corporates?
(A) Enabling the well-being of their employees
(B) Earning interest on the pre-blocked amount in the voucher
(C) The ability to track voucher redemption
(D) End-to-end digital transaction leading to cost reduction

Ans :

(B) Earning interest on the pre-blocked amount in the voucher
Corporates benefit from e-RUPI through employee wellness programs, cost reduction via digital transactions, tracking voucher redemption, and quick, contactless distribution. However, the text does not mention that corporates can earn interest on the pre-blocked amount. The funds are earmarked for redemption by the beneficiary, not for generating interest for the sponsor.

Oct/Nov 2014

13. How does e-RUPI benefit merchants during the payment collection process?
(A) It allows them to provide cash back on every transaction.
(B) It automatically provides them with a credit line.
(C) It offers a hassle-free and contactless payment collection.
(D) It requires customers to share detailed personal information for verification.

Ans :

(C) It offers a hassle-free and contactless payment collection.
For merchants, a primary advantage of accepting e-RUPI is the hassle-free and contactless nature of payment collection, as cash handling is not required. The transaction is secure, authorized by a verification code, and features quick redemption with fewer declines because the amount is pre-blocked in the voucher, ensuring payment settlement.

NODIA

May/June 2019

14. What is a key benefit of e-RUPI for the consumer?
(A) The ability to use the voucher for cash withdrawal at any ATM
(B) Earning reward points on every redemption
(C) The voucher can be used at any merchant globally
(D) No requirement to share personal details during redemption, ensuring privacy

Ans :

(D) No requirement to share personal details during redemption, ensuring privacy
A major benefit for consumers using e-RUPI is the enhanced safety and security. The beneficiary is not required to share personal details at the time of redemption, which ensures that their privacy is maintained. This contrasts with other payment methods that might require sharing card numbers, bank account details, or other sensitive information.

Oct/Nov 2006

15. Based on the provided table, identify the correct difference between e-RUPI and UPI.
(A) e-RUPI is a one-time cashless payment mechanism, while UPI is an application used for receipt or payment of money.
(B) e-RUPI is an application for payment, while UPI is an e-voucher.
(C) The Reserve Bank of India operates UPI, while NPCI operates e-RUPI.
(D) e-RUPI vouchers can be redeemed for general payments, while UPI is for specific service providers.

Ans :

(A) e-RUPI is a one-time cashless payment mechanism, while UPI is an application used for receipt or payment of money.
The comparison table clearly distinguishes the fundamental nature of the two systems. It defines e-RUPI as a one-time, cashless, and contactless payment mechanism, essentially an e-voucher for a specific purpose. In contrast, it describes UPI as a broader application or system used for the general receipt or payment of money between accounts.

May/June 2024

16. What is the core definition of "Fintech" or Financial Technology?
(A) The use of traditional banking hardware to secure financial data
(B) The use of technology to deliver, improve, and automate financial solutions and services
(C) The regulatory framework governing financial institutions
(D) The marketing of financial products through social media platforms

Ans :

(B) The use of technology to deliver, improve, and automate financial solutions and services
Fintech, or Financial technology, is broadly described as the application of new technology to enhance and automate the delivery and utilization of financial services. It encompasses a wide range of innovations, from mobile payment apps to complex algorithms, aimed at making financial transactions more accessible, efficient, and affordable for both consumers and businesses.

Oct/Nov 2010

17. Which of the following is NOT listed as a major Fintech product or service?
(A) Peer-to-peer (P2P) lending platforms
(B) Traditional over-the-counter bond trading
(C) Crowdfunding and blockchain technology
(D) Robo advisors and E-aggregators

Ans :

(B) Traditional over-the-counter bond trading
The text lists several examples of major Fintech products and services, including peer-to-peer (P2P) lending, crowdfunding, blockchain, distributed ledgers, Big Data, smart contracts, Robo advisors, and E-aggregators. Traditional over-the-counter bond trading is a long-standing financial practice and does not represent a new technological innovation characteristic of the Fintech movement.

May/June 2016

18. Based on the paragraph titled "How can Banks benefit from Fintech?", which of the following is explicitly mentioned as a benefit for banks?
(a) Reduced Costs
(b) Reduced time to market
(c) World-class compliance and security
(d) Increased regulatory oversight

(A) Only (a) and (b)
(B) Only (a), (b), and (c)

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(C) Only (d)
(D) All (a), (b), (c), and (d)

Ans :

(B) Only (a), (b), and (c)
The source text lists several benefits that Fintech products offer to banks. These include (a) Reduced Costs, (b) Reduced time to market, (c) Customer Services and Revenue, (d) World-class compliance and security, (e) Greater speed and convenience, (f) Innovative products, and (g) Transparency of products. Increased regulatory oversight is not listed as a benefit.

Oct/Nov 2022

19. What is the primary function of RegTech (Regulatory Technology)?
(A) To create and propose new financial regulations for consideration by market authorities
(B) To offer automated investment advice to retail customers using sophisticated algorithms
(C) To assist financial institutions in managing their regulatory compliance obligations through technology
(D) To develop and execute comprehensive marketing campaigns for new banking products

Ans :

(C) To assist financial institutions in managing their regulatory compliance obligations through technology
RegTech refers to technological solutions designed to streamline and improve regulatory processes. Its primary function is to help banks and other financial institutions manage their regulatory compliance obligations more efficiently and effectively. It addresses the challenges posed by the large number of laws, rules, and regulations that these institutions must adhere to.

May/June 2023

20. Which of the following is NOT a broad purpose for which RegTech can be used?
(A) Product Pricing Strategy
(B) Regulatory Monitoring
(C) Compliance Management
(D) Execution of Compliance

Ans :

(A) Product Pricing Strategy
The text specifies four broad purposes for the application of RegTech: Regulatory Monitoring, Regulatory Obligations, Compliance Management, and Execution of Compliance. While technology can be used in pricing, product pricing strategy itself is a business function and not a primary purpose of RegTech, which is focused specifically on the regulatory and compliance domain.

Oct/Nov 2016

21. Which set of technologies is mentioned as being used by RegTech to help businesses comply with regulations?
(A) Legacy communication tools like Telegraph, Fax, and Landline Telephony
(B) Traditional calculation aids such as Manual Ledger Systems and the Abacus
(C) Modern communication methods like Social Media, Hashtag Banking, and E-mail
(D) Artificial intelligence, big data, cloud computing, and machine learning

NODIA

Ans :

(D) Artificial intelligence, big data, cloud computing, and machine learning
RegTech leverages a wide range of cutting-edge technologies to automate and enhance compliance processes. The text explicitly mentions artificial intelligence, big data, cloud computing, and machine learning as key technologies that empower RegTech solutions, helping businesses to better comply with regulatory requirements and standards while minimizing human error through automation.

May/June 2009

22. What is the definition of SupTech (Supervisory Technology)?
(A) Technology used by banks to supervise their employees
(B) Technological solutions that assist financial supervisory authorities in managing regulatory compliance
(C) Software used by consumers to supervise their personal finances
(D) A superior version of Fintech that replaces all older technologies

Ans :

(B) Technological solutions that assist financial supervisory authorities in managing regulatory compliance

The text states that "RegTech's genuinely disruptive potential resides in its ability to provide real-time surveillance of financial markets, thereby facilitating a rethinking of how financial regulation is thought about." This directly links the disruptive potential (Assertion A) to its capability for real-time surveillance and the subsequent re-evaluation of regulatory approaches (Reason R), making R the correct explanation for A.

May/June 2007

50. What is a potential positive consequence of increased consumer data sharing in open banking?

(A) A guaranteed reduction in service fees for all customers.
(B) Lenders gaining a better understanding of a consumer's financial status and risk level.
(C) Elimination of all financial risks for consumers.
(D) Automatic approval of all loan applications.

Ans :

(B) Lenders gaining a better understanding of a consumer's financial status and risk level.
The text suggests that while data sharing has risks, it also has promising benefits. It is mentioned that "open banking will assist lenders in gaining a better understanding of a consumer's financial status and risk level." This improved understanding could potentially allow lenders to offer more suitable or profitable loan terms to that consumer.

Oct/Nov 2020

51. According to the excerpt, "APIs are garnering fresh attention as a means of improving the delivery of financial services to both retail consumers and commercial customers, thanks to advancements in advanced analytics and the market traction of various nonbank fintech companies," what two factors are cited as reasons for the renewed attention on APIs?

(A) Government mandates and declining bank profits
(B) The rise of cryptocurrency and traditional bank failures
(C) Advancements in advanced analytics and market traction of nonbank fintechs
(D) Increased smartphone penetration and lower data costs

Ans :

(C) Advancements in advanced analytics and market traction of nonbank fintechs
The provided excerpt explicitly states that the fresh attention on APIs is "thanks to advancements in advanced analytics and the market traction of various nonbank fintech companies." These two factors—better data analysis capabilities and the success of competing fintech firms—are driving the adoption of APIs to improve financial service delivery for all customer segments.

May/June 2012

52. A corporate entity wants to disburse a health and wellness allowance to its 5,000 employees. The allowance should only be redeemable at specific partner pharmacies and gyms, and the company wants to track redemptions digitally without complex bank transfers for each employee. Which solution is most appropriate?

(A) Issuing corporate credit cards to all employees
(B) Using e-RUPI vouchers sponsored by the company
(C) Direct salary transfers with a memo for wellness
(D) Providing physical cash envelopes to each employee

Ans :

(B) Using e-RUPI vouchers sponsored by the company
This case is an ideal application of e-RUPI for corporates. It allows the company (the sponsor) to issue purpose-specific and merchant-specific vouchers. The benefits mentioned in the text, such as enabling employee well-being, tracking redemption, and end-to-end digital transactions, align perfectly with the corporate's requirements for a controlled, trackable, and digital disbursement method.

Oct/Nov 2014

53. Which of the following statements about the e-RUPI ecosystem is INCORRECT?

(A) The Issuer Bank is the bank that initiates the request to create the e-RUPI voucher.
(B) The Sponsor is a business customer of the bank who requests the creation of e-RUPIs.
(C) The e-RUPI beneficiary must have an account with the Acquiring Bank.
(D) The Designated Merchant is a specific point where the e-RUPI can be redeemed.

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To emphasize the deep integration of social media into daily life, the text provides a statistic on usage duration. It states that "An average of 2 hours and 27 minutes are spent on social media per person per day." This significant time commitment makes social media a crucial channel for customer interaction and service delivery.

May/June 2017

28. What is a "Hashtag" in the context of Hashtag Banking?

(A) A word or phrase preceded by a hash sign (#) to identify messages on a specific topic
(B) A secure password for mobile banking
(C) A unique customer identification number for social media
(D) A type of encryption used for fund transfers

Ans :

(A) A word or phrase preceded by a hash sign (#) to identify messages on a specific topic
The text defines a hashtag as a word or phrase that is always preceded by a hash sign (#). In the context of social media sites like Twitter, it is used to identify and categorize messages related to a specific topic. Banks leverage this feature to allow customers to initiate service requests using predefined hashtags.

Oct/Nov 2005

29. A tech-savvy college student, who actively uses Twitter, wants to check her account balance quickly without opening her bank's mobile app. Her bank offers a service via Twitter. What must she do first to use this service, and what is this service model called?

(A) She must call customer care; this is called Phone Banking.
(B) She must visit the branch; this is called Branch Banking.
(C) She must 'follow' her bank on Twitter; this is called Hashtag Banking.
(D) She must email the bank's support address; this is called Email Banking.

Ans :

(C) She must 'follow' her bank on Twitter; this is called Hashtag Banking.
The case describes a scenario perfectly suited for Hashtag Banking. The text explains that to participate in Hashtag Banking, a customer has to 'follow' their bank on Twitter. They can then send messages with designated hashtags to perform transactions like balance inquiries. This model is designed for socially active customers seeking convenience.

May/June 2020

30. Which of the following is NOT listed as a service offered through Hashtag Banking?

(A) Applying for a home mortgage
(B) Credit card services
(C) FASTag services
(D) Block/Unblock card

Ans :

(A) Applying for a home mortgage
The text provides a list of example services offered via Hashtag banking, which includes banking services, credit card services, FASTag services, loan services, fixed deposit services, and block/unblock card. Applying for a complex product like a home mortgage is not listed, as Hashtag Banking is typically used for simpler, transactional services.

Oct/Nov 2015

31. How does a bank's system process a customer's request sent via a Tweet in Hashtag Banking?

(A) A bank employee in the social media team manually reads the Tweet and enters the request into the core banking system.
(B) The Tweet is automatically printed by a central server and delivered via internal mail to the branch manager for manual approval.
(C) The customer receives an automated interactive voice response (IVR) call to verify the request details over the phone.
(D) The bank's listening server parses the Tweet, passes it to the messaging server, and then to the core system.

Ans :

(D) The bank's listening server parses the Tweet, passes it to the messaging server, and then to the core system.
The process is automated for efficiency and security. The text describes that the moment a user sends a Tweet, the bank's "listening server" instantly parses it. The request is then passed securely to the messaging server and onwards to the bank's core system for authentication and processing, with a response tweeted back via direct message.

NODIA

SupTech, or Supervisory Technology, is distinct from RegTech in its user base. While RegTech is used by financial institutions, SupTech offers technological solutions specifically for financial supervisory authorities (like central banks). It helps these agencies manage risk, implement regulations, and improve their supervisory efficiency through automation and data analysis.

Oct/Nov 2007

23. Which of the following is provided as an example of a SupTech system used by the Reserve Bank of India?
(A) Unified Payments Interface (UPI)
(B) National Electronic Funds Transfer (NEFT)
(C) Central Repository of Information of Large Credits (CRILC)
(D) e-RUPI voucher system

Ans :

(C) Central Repository of Information of Large Credits (CRILC)
The text gives specific examples of SupTech being used by the Reserve Bank of India to collect and analyze data for supervisory purposes. The examples mentioned are the Import Data Processing and Monitoring System (IDPMS), Export Data Processing and Monitoring System (EDPMS), and the Central Repository of Information of Large Credits (CRILC).

May/June 2025

24. A national regulatory body wants to improve its ability to monitor large credit exposures across the banking system in real-time to identify systemic risks more effectively. It needs a technology-driven solution to collect and analyze this data from all commercial banks. Which type of technology would be most appropriate for this purpose?
(A) Fintech
(B) RegTech
(C) Hashtag Banking
(D) SupTech

Ans :

(D) SupTech
This scenario describes a need for a supervisory authority to enhance its monitoring capabilities. SupTech (Supervisory Technology) is specifically designed to provide technological tools to regulatory bodies to improve their supervisory efficiency. A system like CRILC, mentioned as a SupTech example used by RBI, directly addresses the need to monitor large credit exposures.

Oct/Nov 2019

25. According to the statistics provided, what percentage of the world's population used social media as of early 2022?
(A) 28.4%
(B) 48.4%
(C) 58.4%
(D) 78.4%

Ans :

(C) 58.4%
The section on Social Media Banking provides specific statistics to highlight its phenomenal growth. It is stated that "More than half of the world now uses social media (58.4%)". This figure underscores the importance for banks to establish a presence on social media platforms to engage with a significant and growing segment of the population.

May/June 2010

26. As of January 31, 2022, which social media platform had the highest number of active users?
(A) WhatsApp
(B) Facebook
(C) YouTube
(D) Instagram

Ans :

(B) Facebook
The text provides a breakdown of active users on major social media platforms as of January 31, 2022. It states that Facebook has 2.91 Billion Active Users, followed by YouTube with 2.56 Billion, WhatsApp with 2.0 Billion, and Instagram with 1.47 Billion. Therefore, Facebook had the highest number of active users.

Oct/Nov 2024

27. What is the average amount of time an individual spends on social media per day, according to the provided statistics?
(A) 1 hour and 27 minutes
(B) 3 hours and 7 minutes
(C) 45 minutes
(D) 2 hours and 27 minutes

Ans :

(D) 2 hours and 27 minutes

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May/June 2008

36. What is a critical rule regarding data handling by an Account Aggregator?

(A) Data can be stored by the aggregator for up to 30 days for audit purposes.

(B) Data cannot be stored by the aggregator and is transferred in real-time.

(C) Data can be sold to third-party marketing companies with customer consent.

(D) Data can be used by the aggregator for its own analysis and product development.

Ans :

(B) Data cannot be stored by the aggregator and is transferred in real-time.

A fundamental principle of the Account Aggregator framework is that the AA is merely a data-blind conduit. The text explicitly states, "Data cannot be stored by the aggregator or used by it for any other purpose." The information is encrypted and flows in real-time from the FIP to the FIU based on consent.

Oct/Nov 2013

37. Based on the excerpt, "Account Aggregator retrieves or collects information related to financial assets of a customer from the holders of such information (termed as Financial Information Providers (FIPs)) and aggregates, consolidates and presents it to the customers or specified users (termed as Financial Information Users (FIUs))", what is the role of a Financial Information User (FIU)?

(A) To hold and provide the customer's initial financial data for sharing

(B) To regulate the data transfer process between FIPs and customers

(C) To act as the intermediary platform for secure financial data sharing

(D) To receive the aggregated financial data to provide a financial product or service

Ans :

(D) To receive the aggregated financial data to provide a financial product or service

The excerpt clearly defines an FIU as a "specified user" to whom the Account Aggregator presents the consolidated information. An FIU is an entity, like a lending institution or a wealth management firm, that consumes the customer's financial data (with their consent) to offer them a financial product or service more efficiently.

May/June 2015

38. How does the Account Aggregator framework primarily assist in the provision of financial services like lending?

(A) By eliminating paper trails and reducing information asymmetry

(B) By offering lower interest rates than banks

(C) By providing a government guarantee on all loans

(D) By making lending decisions on behalf of the banks

Ans :

(A) By eliminating paper trails and reducing information asymmetry

The AA framework significantly improves the lending process by digitizing data sharing. It helps in decision-making for services like lending and loan monitoring by "eliminating paper trails." Furthermore, it facilitates access to credit for underserved segments by "reducing information asymmetry," as lenders can get a comprehensive, digitally verified view of a borrower's financial health.

NODIA

Oct/Nov 2012

39. What is another term used for "Open Banking"?

(A) Closed Network Banking

(B) Legacy Banking

(C) Open Bank Data

(D) Branch-only Banking

Ans :

(C) Open Bank Data

The text introduces Open Banking as a major innovation and explicitly provides an alternative name for it. It states, "Open banking is also referred to as 'open bank data'." This term highlights the core concept of making a customer's banking data accessible to third parties, with the customer's permission, to foster competition and innovation.

May/June 2011

40. What is the key technology that enables Open Banking?

(A) Application Programming Interfaces (APIs)

(B) Blockchain

(C) Social Media

(D) QR Codes

Ans :

(A) Application Programming Interfaces (APIs)

May/June 2013

32. In Hashtag Banking, what is the ultimate channel used for fund transfers initiated through a social media platform?

(A) A proprietary social media payment system
(B) Usual payment system channels like NEFT, IMPS etc.
(C) The bank's own internal settlement system only
(D) A physical cheque issued by the bank

Ans :

(B) Usual payment system channels like NEFT, IMPS etc.
While the service request is initiated on a social media platform like Twitter, the actual financial transaction is not executed there. The text clarifies that "the ultimate transfer of funds happens through the usual payment system channels like NEFT, IMPS etc." Social media acts as the front-end interface, while the back-end processing relies on established payment networks.

Oct/Nov 2021

33. What type of entity is an Account Aggregator (AA)?

(A) A government department, such as the income tax authority, that aggregates tax data
(B) A social media influencer or marketing agency that promotes financial products
(C) An RBI regulated entity holding a specific NBFC-AA license for this purpose
(D) A registered credit rating agency, such as CIBIL, that provides credit scores

Ans :

(C) An RBI regulated entity holding a specific NBFC-AA license for this purpose
The text defines an Account Aggregator (AA) as a specific type of regulated entity. It is a Non-Banking Financial Company (NBFC) that has received a special NBFC-AA license from the Reserve Bank of India (RBI). This license authorizes it to help individuals securely access and share their financial information between different financial institutions.

May/June 2006

34. What is the primary role of an Account Aggregator (AA)?

(A) To collect and store customers' financial data on its servers for future analysis and use
(B) To act as a lender by providing loans and various forms of credit directly to customers
(C) To analyze customer data to decide on their creditworthiness and approve or reject loan applications
(D) To help individuals securely access and share their financial information with their explicit consent

Ans :

(D) To help individuals securely access and share their financial information with their explicit consent
The core function of an Account Aggregator is to act as a consent manager for financial data sharing. It helps an individual securely and digitally access their information from one financial institution (a Financial Information Provider) and share it with another regulated financial institution (a Financial Information User), but only based on the individual's explicit consent.

Oct/Nov 2018

35. In the Account Aggregator framework, what is a 'Financial Information Provider' (FIP)?

(A) The holder of the customer's financial information, such as a bank or mutual fund company
(B) The entity that consumes the shared data to offer a financial service, such as a lending company
(C) The Account Aggregator platform itself, which acts as the primary data intermediary
(D) The regulatory body, like the RBI, that provides the operating license for data sharing

Ans :

(A) The holder of the customer's financial information, such as a bank or mutual fund company
Within the AA ecosystem, a Financial Information Provider (FIP) is the institution that holds the customer's data. This can be a bank where the customer has an account, a mutual fund company, an insurance provider, or any other entity that possesses the financial information that the customer wishes to share through the AA network.

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their credit card statement from Bank B. What underlying banking trend allows the startup to build this app by securely accessing data from both banks with user permission?
(A) Open Banking
(B) Hashtag Banking
(C) e-RUPI
(D) SupTech

Ans :

(A) Open Banking
This case describes a classic use case for Open Banking. The fintech startup is a third-party provider that needs to access customer data from multiple financial institutions (Bank A and Bank B). Open Banking, through the use of APIs and customer consent, provides the framework that makes it possible for such third-party apps to connect and aggregate data.

May/June 2005

46. How can open banking assist small businesses?
(A) By providing them with free advertising on social media
(B) By saving time through online accounting and assisting in fraud detection
(C) By automatically filing their tax returns
(D) By offering them guaranteed interest-free loans

Ans :

(B) By saving time through online accounting and assisting in fraud detection
The text mentions specific benefits of open banking for small businesses. It states that "By utilising online accounting, open banking may assist small businesses in saving time." Additionally, it can help fraud detection organizations in "better monitoring customer accounts and identifying problems sooner," which is an indirect benefit to the business's financial security.

Oct/Nov 2017

47. According to the "Let Us Sum Up" section, what is a critical point of focus for regulators concerning Fintech adoption?
(A) Banning all Fintech innovations to protect the market share of traditional banks
(B) Developing a robust new framework that promotes innovation and market confidence
(C) Mandating that all banks across the country adopt the same single Fintech platform
(D) Significantly increasing the transaction fees for using digital financial platforms

Ans :

(B) Developing a robust new framework that promotes innovation and market confidence
The summary highlights two critical focus areas. One is analyzing risks, and the other is the need for regulators to develop a "robust new framework." This framework should aim to promote innovation and build market confidence, suggesting a balanced approach that encourages growth while managing potential downsides, rather than stifling new technologies.

May/June 2014

48. What tool is mentioned in the summary that supports the development of a new regulatory framework for Fintech?
(A) Increased capital requirements for banks
(B) Stricter data localization laws
(C) Higher penalties for non-compliance
(D) The use of regulatory "sandboxes"

Ans :

(D) The use of regulatory "sandboxes"
The summary section explicitly points to a specific tool to aid regulators. It calls for a new framework "supported by the use of regulatory 'sandboxes'." A regulatory sandbox is a controlled environment where Fintech companies can test their innovations on a limited scale under regulatory supervision, allowing for development while containing potential risks.

Oct/Nov 2025

49. Assertion (A): RegTech has genuinely disruptive potential in financial regulation.
Reason (R): RegTech provides real-time surveillance of financial markets, facilitating a rethinking of how financial regulation is managed.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

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(D) UPI Operator : The National Payments Corporation of India

Ans :

(C) e-RUPI Operator : The Reserve Bank of India
The comparison table contains a specific entry stating "The Reserve Bank of India operates e-RUPI". However, the text elsewhere clarifies that e-RUPI was launched by the National Payments Corporation of India (NPCI), which also operates the UPI platform. Therefore, the pairing of e-RUPI with the RBI as its operator is factually inconsistent with the broader chapter information.

May/June 2022

58. Consider the following statements about Open Banking:

1. It uses networks rather than centralisation.
2. It is also known as "open bank data".
3. Customer consent is not required for data sharing.
4. It exclusively benefits consumers, not financial organizations.

Which combination of statements is correct?

(A) 1 and 2 only
(B) 2 and 3 only
(C) 1, 2, and 4
(D) 3 and 4 only

Ans :

(A) 1 and 2 only
The text states that open banking "uses networks rather than centralisation" and is "also referred to as 'open bank data'", making statements 1 and 2 correct. It repeatedly emphasizes that customer consent is mandatory, making statement 3 incorrect. It also mentions benefits for financial organizations like cost reduction, making statement 4 incorrect.

Oct/Nov 2022

59. Based on the sentence, "The future of RegTech and SupTech technologies depends largely on big data analytics, artificial intelligence, machine learning, cloud computing, etc.", what is the key determinant for the advancement of RegTech and SupTech?

(A) The rate of traditional bank branch closures and the shift to digital-only banking
(B) The level of government investment in financial literacy programs for the general public
(C) The development and integration of cutting-edge data and processing technologies
(D) The global adoption of a single digital currency and the decline of fiat money

Ans :

(C) The development and integration of cutting-edge data and processing technologies
The excerpt directly links the future evolution of both RegTech and SupTech to the progress of a specific set of advanced technologies. It explicitly mentions big data analytics, AI, machine learning, and cloud computing as the foundational elements upon which the future capabilities of these supervisory and regulatory technologies will be built.

May/June 2023

60. A bank's compliance department is overwhelmed by the frequent updates to financial regulations. They find it difficult to monitor changes, ensure adherence, and manage reporting efficiently, leading to a high risk of human error. What specific technological solution is designed to address these challenges?

(A) Open Banking
(B) RegTech
(C) e-RUPI
(D) Social Media Banking

Ans :

(B) RegTech
This scenario perfectly describes the problem that RegTech (Regulatory Technology) is designed to solve. The text explains that RegTech refers to solutions that "streamline and improve regulatory processes" and help financial institutions manage compliance when they are "overwhelmed by the number of laws, rules, and regulations." It helps make compliance more efficient and minimizes human error.

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Ans :

(C) The e-RUPI beneficiary must have an account with the Acquiring Bank.
The text clearly states that an e-RUPI beneficiary may not be a bank account holder at all. This financial inclusion feature means they do not need an account with any bank, including the Issuer, Sponsor's, or Acquiring Bank. The other statements correctly describe the roles of the Issuer Bank, Sponsor, and Designated Merchant.

May/June 2019

54. Identify the correct statement regarding Fintech.
(A) Fintech is primarily focused on improving in-person services at physical bank branches.
(B) The Fintech ecosystem exclusively consists of start-ups and technology firms.
(C) Fintech innovations are only applicable to corporations and business owners, not individual consumers.
(D) Fintech aims to simplify financial transactions, making them more accessible and affordable.

Ans :

(D) Fintech aims to simplify financial transactions, making them more accessible and affordable.
The text defines Fintech's purpose as simplifying financial transactions for consumers and businesses, making them more accessible and affordable. It is not limited to physical branches or corporations. The ecosystem is broader, also including government, customers, and traditional financial institutions, not just start-ups and tech firms, making the other options incorrect.

Oct/Nov 2006

55. Match the technology (List-I) with its primary user/purpose (List-II).
List-I
P. RegTech
Q. SupTech
R. e-RUPI
S. Account Aggregator
List-II
1. A beneficiary receiving a purpose-specific digital voucher.
2. A financial supervisory authority monitoring the banking sector.
3. A bank automating its regulatory compliance reporting.
4. A consent manager for sharing a user's financial data.

Code:
(A) P-3, Q-2, R-1, S-4
(B) P-2, Q-3, R-4, S-1
(C) P-3, Q-4, R-1, S-2
(D) P-4, Q-1, R-2, S-3

Ans :

(A) P-3, Q-2, R-1, S-4
RegTech (P) is used by institutions like banks for compliance (3). SupTech (Q) is used by supervisory authorities for monitoring (2). e-RUPI (R) is a voucher for a beneficiary (1). An Account Aggregator (S) acts as a consent manager for data sharing (4). This matching correctly aligns each technology with its distinct role.

May/June 2024

56. Consider the following statements about Hashtag Banking:
1. It is primarily used on Twitter to initiate banking services.
2. The customer must 'follow' the bank on Twitter to use the facility.
3. All transactions are settled directly on Twitter's proprietary payment platform.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 2 only
The text confirms that Hashtag Banking is used on social media sites, "majorly on Twitter" (Statement 1), and that the "customer has to 'follow' the Bank on Twitter to use this facility" (Statement 2). However, it clarifies that fund transfers happen through usual channels like NEFT/IMPS, not a proprietary Twitter platform (Statement 3 is incorrect).

Oct/Nov 2010

57. Which of the following is an INCORRECT pairing based on the "Difference between e-RUPI and UPI" table?
(A) e-RUPI : e-voucher
(B) UPI : Application for receipt or payment of money
(C) e-RUPI Operator : The Reserve Bank of India

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Open Banking relies on Application Programming Interfaces (APIs) as its foundational technology. The text explains that banks and non-bank financial institutions use APIs to provide third-party financial service providers with open access to consumer banking, transactional, and other financial data. The API acts as a secure gateway for this data exchange.

Oct/Nov 2008

41. What is the function of an Application Programming Interface (API) in the context of Open Banking?
(A) It is a user-facing mobile app for customers to manage their various bank accounts.
(B) It is a physical hardware security module that encrypts and secures bank servers.
(C) It is a digital marketing tool used by banks for promoting new financial products.
(D) It enables services and products to communicate and share data through a specified interface.

Ans :

(D) It enables services and products to communicate and share data through a specified interface.
An API is defined as a mechanism that enables different software applications to communicate and share data and functionality. In Open Banking, it allows third-party developers to connect to a bank's systems and access specific data or services through a pre-defined, secure interface, without needing to know the complex inner workings of the bank's core systems.

May/June 2022

42. In the Open Banking model, what is typically required before a bank allows third-party providers to access a customer's data?
(A) A court order
(B) The customer's explicit consent
(C) Approval from the bank's board of directors
(D) A written request from the third-party provider's CEO

Ans :

(B) The customer's explicit consent
Customer control and consent are central to the Open Banking framework. The text clearly states that "Customers typically need to provide consent before a bank allows its stakeholders to access their accounts." This ensures that the customer remains in charge of their personal and financial data, deciding who can access it and for what purpose.

Oct/Nov 2023

43. Refer to the "Open banking workflow" diagram. The diagram illustrates that a bank's customer data is accessed via "Open APIs" to be used by what entities?
(A) Only other banks in the network
(B) Government regulatory bodies
(C) Third Party Apps and Services
(D) The bank's internal audit department

Ans :

(C) Third Party Apps and Services
The diagram visually represents the flow of information in Open Banking. It shows data from the "BANK" (originating from "Customer Data") flowing through "Open APIs" to a set of icons labeled "Third Party Apps and Services." This clearly illustrates that the purpose of the APIs is to enable external applications to utilize the bank's data.

May/June 2016

44. What is identified as a potential severe hazard of Open Banking?
(A) Increased operational costs for financial organizations
(B) Slower transaction processing times
(C) Reduced competition in the financial industry
(D) Risks to financial privacy and security of consumer funds

Ans :

(D) Risks to financial privacy and security of consumer funds
While Open Banking offers many benefits, the text also highlights its risks. A primary concern is the "potential for severe hazards to financial privacy and the security of consumers' funds." The interconnectedness of data increases the risk of data breaches, hacking, or misuse by malicious third-party apps, posing a threat to both privacy and financial safety.

Oct/Nov 2011

45. A fintech startup wants to launch a new personal finance management app. To provide value, the app needs to consolidate a user's transaction history from their savings account at Bank A and

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CHAPTER 51

Ethics, Business Ethics & Banking: An Integrated Perspective

Oct/Nov 2015

1. According to the text, which principle is identified as a key foundation for the banking sector, making it essential for banking professionals to be honest, responsible, and exhibit excellent leadership?

(A) Profit Maximization
(B) Trustworthiness
(C) Regulatory Compliance
(D) Market Expansion

Ans :

(B) Trustworthiness
The banking sector functions on the key principle of trustworthiness. For banking professionals, it is imperative to be honest, responsible, and possess strong leadership qualities. A failure to uphold ethical conduct, particularly trust, can have far-reaching consequences, potentially affecting the entire global economy. This principle is central to maintaining the stability and resilience of the business.

May/June 2008

2. Which of the following best defines 'Values' as described in the chapter?

(A) Stable, long-lasting beliefs about what is important to someone.
(B) A set of moral principles governing a group's conduct.
(C) A discipline dealing with what is good and bad.
(D) A system of moral standards acceptable in a society.

Ans :

(A) Stable, long-lasting beliefs about what is important to someone.
Values are defined as stable, long-lasting beliefs concerning what is important to an individual. They represent the qualities a person chooses to embody, which in turn guide their actions and overall conduct. Unlike ethics, which are more of a set of external standards, values are core to an individual's being and form the basis for their personal choices.

Oct/Nov 2021

3. As per the Merriam-Webster definition provided, which of the following is NOT a description of 'Ethics'?

(A) The principles of conduct governing an individual or a group.
(B) A set of moral issues or aspects such as rightness.
(C) The core principles that guide how a business is done.
(D) The discipline dealing with what is good and bad and with moral duty.

Ans :

(C) The core principles that guide how a business is done.
The chapter provides four definitions of 'Ethics' from Merriam-Webster, which include it being a discipline on good and bad, a system of moral values, principles of conduct for a group, and a set of moral issues. The description of core principles guiding how a business is done is the definition provided for 'Business values', not 'Ethics'.

May/June 2016

4. What is the fundamental nature of ethics as described in the chapter?

(A) It is descriptive, dealing with what is currently being done.
(B) It is subjective, varying entirely from person to person without any universal aspect.
(C) It is optional, applying only to those who choose to follow it.
(D) It is prescriptive, dealing with what must or ought to be done.

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Ans :

(B) Requires choosing among actions that may need evaluation as just or unjust.
An ethical dilemma is defined as a situation that requires an individual to choose among different actions, where the alternatives themselves may need to be evaluated as just or unjust. Such dilemmas are not simple right-versus-wrong choices and can arise from conflicts between personal, organizational, and social values, making them complex to resolve.

May/June 2015

38. According to the background on Enron, what was the company's status by the year 2000?
(A) The seventh largest Fortune 500 Company with a revenue of $100 billion.
(B) A small, regional gas pipeline company with minimal revenue.
(C) A government-owned utility company specializing in electricity.
(D) A bankrupt entity that had already ceased all operations.

Ans :

(A) The seventh largest Fortune 500 Company with a revenue of $100 billion.
The chapter provides background on Enron, stating that it was a major gas pipeline company that capitalized on the privatization of natural gas and electricity. By the year 2000, it had become the seventh largest Fortune 500 Company, boasting a massive revenue of $100 billion, before its eventual collapse due to unethical practices.

Oct/Nov 2020

39. What was the mechanism used by Enron to manage large liabilities in an "off-the-book" manner?
(A) By overstating its cash reserves in the official financial statements.
(B) By refusing to file for bankruptcy despite being insolvent.
(C) By creating a special purpose vehicle (SPV) backed by Enron's own stocks.
(D) By merging with its auditor, Arthur Andersen, to hide the discrepancies.

Ans :

(C) By creating a special purpose vehicle (SPV) backed by Enron's own stocks.
The crisis at Enron was revealed when a senior executive highlighted major accounting issues. A key unethical practice was the management of large liabilities off the balance sheet. This was achieved by creating a special purpose vehicle (SPV), an external entity which held the liabilities, and was dubiously backed by Enron's own stocks.

May/June 2022

40. Which of the following is identified as a key unethical practice that triggered the Global Financial Crisis of 2007-08?
(A) Banks refusing to give out mortgage loans, leading to a housing shortage.
(B) Homeowners prepaying their mortgages too quickly, causing losses for banks.
(C) Rating agencies being overly strict and downgrading safe securities.
(D) The US Federal government providing an implied guarantee, creating a moral hazard.

Ans :

(D) The US Federal government providing an implied guarantee, creating a moral hazard.
The text points to several unethical practices, one of which was the moral hazard created by an implied guarantee from the US Federal government for financial institutions. This contributed to a glut of risky lending, as institutions felt they were shielded from the full consequences of failure, encouraging the aggressive and reckless behavior that fueled the crisis.

Oct/Nov 2009

41. During the lead-up to the 2007-08 Global Financial Crisis, what was the role of mortgage brokers?
(A) Their ultimate objective was business acquisition, so they ignored borrower quality.
(B) They carefully vetted borrowers to ensure high-quality loans were issued.
(C) They refused to participate in the subprime lending market due to high risk.
(D) They provided independent and unbiased ratings for mortgage-backed securities.

Ans :

(A) Their ultimate objective was business acquisition, so they ignored borrower quality.
The chapter states that one of the contributing factors to the crisis was the behavior of

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(A) Business Ethics: Guidelines for conduct; Business Values: Principles and ideals for judgment.
(B) Business Ethics: Induce thinking; Business Values: Moral principle system.
(C) Business Ethics: Indicate - Level of significance; Business Values: Indicate - Magnitude of rightness.
(D) Business Ethics: Determine - What we want to achieve; Business Values: Define - What is morally correct.

Ans :

(A) Business Ethics: Guidelines for conduct; Business Values: Principles and ideals for judgment.
The table clearly shows that Business Ethics refers to guidelines for conduct that address questions of morality. In contrast, Business Values refers to the principles and ideals that assist in making judgments about what is more important. The other options incorrectly swap the descriptions provided in the table for each concept, misrepresenting their respective roles and functions.

Oct/Nov 2018

9. Which statement accurately reflects the reality countering 'Myth 1' that business ethics obstructs people's potential?
(A) Business ethics primarily focuses on punishing bad behavior rather than guiding good behavior.
(B) Business ethics forces people to change their core personalities, thereby limiting their professional growth.
(C) Business ethics is about managing values and conflict resolution to align individual and organizational ethics.
(D) Business ethics is a rigid set of rules that prevents any form of creative problem-solving in business.

Ans :

(C) Business ethics is about managing values and conflict resolution to align individual and organizational ethics.
The reality behind 'Myth 1' is that business ethics does not aim to modify people's core beings. Instead, its purpose is to manage values and facilitate conflict resolution. It provides a framework for resolving the divergence that can occur between an individual's personal ethics and the ethical expectations of the organization, thereby fostering alignment and coherence.

May/June 2024

10. What is the reality presented against 'Myth 2', which claims that people in an organization are already ethical and do not need training?
(A) Managers often struggle with complex ethical dilemmas, and organizational ethics helps navigate these grey areas.
(B) Ethical training is only necessary for new employees, as senior managers are inherently ethical.
(C) Most ethical issues are simple and can be resolved without any specific guidance or training.
(D) People's ethical nature is fixed, and no amount of training can influence their decision-making process.

Ans :

(A) Managers often struggle with complex ethical dilemmas, and organizational ethics helps navigate these grey areas.
Countering the myth that people are inherently ethical and need no training, the reality is that managers often find it difficult to resolve complex ethical dilemmas. When faced with situations involving equally logical but conflicting choices, a structured approach to organizational ethics is crucial. It provides the necessary tools and perspectives to navigate these challenging "grey areas" effectively.

Oct/Nov 2010

11. The belief that business ethics is a fad and has little to do with daily operations is identified as 'Myth 3'. What does the chapter state as the reality?
(A) Business ethics is only relevant during major corporate scandals and not in routine activities.
(B) Business ethics is a theoretical concept with no practical application in the day-to-day functioning of a firm.
(C) Daily operations are governed by legal standards, making ethical considerations redundant and unnecessary.
(D) The perception of business ethics as a fad arises from a lack of interest and involvement by managers.

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During the Post-crisis Stage, while trying to overcome the immediate effects, the organization begins to analyze the situation. This involves investigating and identifying the key reasons for the crisis. A vital part of this stage is rebuilding the organization's reputation and goodwill, proving its legitimacy, and regaining the trust of its stakeholders.

Oct/Nov 2011

29. Assertion (A): The chapter concludes that business ethics is not an oxymoron.
Reason (R): A business manager's ultimate objective is to create value and build trust, which can only be achieved through ethical practices that provide a long-term competitive advantage.
(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Ans :

(A) Both (A) and (R) are true, and (R) is the correct explanation of (A).
The chapter directly addresses the question of whether business ethics is an oxymoron and concludes that it is not. The reasoning provided is that a manager's ultimate goal of creating value and building societal trust is achievable only through ethical practices. While ethical actions may seem costly initially, they lead to long-term benefits and competitive advantage.

May/June 2010

30. Which of the following is NOT listed as a way ethics is important in banking?
(A) It helps in dealing with complex moral dilemmas.
(B) It helps avoid risk by refraining staff from unethical practices.
(C) It guarantees the highest possible short-term profits for the bank.
(D) It guards the bank's reputation and the depositors' interest.

Ans :

(C) It guarantees the highest possible short-term profits for the bank.
The chapter highlights that ethics in banking helps in dealing with dilemmas, guards reputation and goodwill, and helps avoid risks. These practices maintain system stability and enhance brand image. However, it does not suggest that ethics guarantees the highest possible short-term profits. In fact, ethical actions can sometimes be costly in the short term.

Oct/Nov 2024

31. Consider the following statements regarding the need for ethics in banking:
1. Ethics helps bank employees navigate complex dilemmas, distinguishing between right and wrong, and between right and less right.
2. Ethical practices help safeguard depositors' interests, maintain system stability, and enhance the bank's brand image.
3. A well-defined code of ethics can prevent staff from approving unqualified loans or delaying applications for personal gain.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 2 and 3 only
(C) 1 and 3 only
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
All three statements are correct as per the text. Ethics provides a moral compass for dilemmas (Statement 1). It guards reputation, which is crucial for protecting depositor interests and system stability (Statement 2). A strong code of ethics also serves as a preventive measure against specific corrupt activities by staff, such as improper loan approvals (Statement 3).

May/June 2023

32. What is identified as the first and foremost principle of ethical banking?
(A) Profitability
(B) Trust
(C) Innovation
(D) Aggressive Growth

Ans :

(B) Trust
The text explicitly states that "The first and the foremost principle of ethical banking is Trust." It defines trust as the confidence in the quality or attribute of a person or organization, which includes the truth of a statement. In business, this translates to trustworthiness, which is

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Fairness is about a concern for actions, processes, and consequences that are morally right, honorable, and equitable. It does not guarantee that everyone gets what they want, but it ensures that everyone has an equal opportunity to benefit. In competition, it provides a level playing field and prohibits anti-competitive practices like price-fixing or bid rigging.

May/June 2019

16. What is the relationship between 'Honesty' and 'Integrity' as described in the chapter?
(A) Honesty is about consistency, while integrity is about being truthful in a single instance.
(B) Integrity is linked to honesty, signifying a consistency of honesty across all situations.
(C) Honesty applies to organizations, while integrity is a purely personal trait.
(D) The two terms are used interchangeably and have the exact same meaning in business ethics.

Ans :

(B) Integrity is linked to honesty, signifying a consistency of honesty across all situations.
The chapter explains that integrity is linked to honesty. While honesty means being truthful and straightforward, integrity implies having a consistency of honesty. A person of integrity is honest in a generalized manner, applying this trait across all situations and forums, rather than selectively displaying honesty in one context and dishonesty in another.

Oct/Nov 2025

17. Which principle of business ethics is described as one of the most important assets of a business and also one of the most difficult to rebuild if lost?
(A) Prudence
(B) Reputation/goodwill
(C) Openness
(D) Concern for Others

Ans :

(B) Reputation/goodwill
Reputation and goodwill are identified as one of the most critical assets for any business. The chapter emphasizes that this asset is also one of the most difficult to restore once it has been damaged or lost. Therefore, businesses are advised to actively work on building a strong reputation, which goes hand-in-hand with maintaining high morale for its staff.

May/June 2017

18. The ability of a business to make the right decision, gained over time from experience and knowledge, to improve a situation rather than make it worse, is known as:
(A) Prudence
(B) Openness
(C) Fairness
(D) Dignity

Ans :

(A) Prudence
Prudence is defined as the ability of a business to make the right decisions. This skill is not innate but is acquired over a period of time through experience and knowledge. It involves exercising a degree of judgment that ensures a situation is improved, or at the very least not worsened, by the decisions made.

NODIA

Oct/Nov 2014

19. According to the text, the principle of 'Concern for Others' makes a business morally responsible towards which groups?
(A) Only its internal groups, such as employees and management.
(B) Only its external groups, such as customers and investors.
(C) Both internal groups and external groups.
(D) Only the society in the immediate vicinity of its operations.

Ans :

(C) Both internal groups and external groups.
The principle of 'Concern for Others' stems from the fact that every business is an integral part of society. It survives and grows with society's consent and cooperation. Consequently, a business is morally responsible towards society and must fulfill its responsibilities towards both its internal groups (like employees) and its external groups (like customers and investors).

May/June 2005

20. Mahatma Gandhi's philosophy of 'Trusteeship' suggests that a capitalist should:
(A) Maximize personal enjoyment of wealth generated by the business.
(B) Distribute all wealth surplus immediately, leaving none for business preservation.

(C) Consider all wealth as exclusively their own, earned through their unique vision.
(D) Act as a "trustee" of wealth, recognizing it as the fruit of others' labor.

Ans :

(D) Act as a "trustee" of wealth, recognizing it as the fruit of others' labor.
Mahatma Gandhi's philosophy of 'Trusteeship' posits that a capitalist should realize that the wealth they control is the result of the hard work, toil, and sacrifice of workers and other sections of society. Therefore, the capitalist's role is not one of an owner but of a "trustee," tasked with creating, preserving, and increasing wealth without expecting its enjoyment.

Oct/Nov 2022

21. The philosophy of 'Trusteeship' is said to have its origin in the "Bhagwat Gita". Which two concepts from the Gita are mentioned in this context?
(A) Dharma (duty) and Artha (wealth)
(B) Moksha (liberation) and Kama (desire)
(C) Aparigraha (non-possession) and Nishkam Karmyoga (selfless work)
(D) Yajna (sacrifice) and Dana (charity)

Ans :

(C) Aparigraha (non-possession) and Nishkam Karmyoga (selfless work)
The chapter explicitly links the philosophy of trusteeship to its origins in the "Bhagwat Gita," highlighting two key concepts. These are 'Aparigraha', which translates to non-possession, and 'Nishkam Karmyoga', which means selfless work. These principles underpin the idea that trustees should manage wealth for the benefit of society without personal attachment or expectation of enjoyment.

May/June 2018

22. In India, when did business ethics gain center stage in business operations, leading to the establishment of formal systems of corporate governance?
(A) In the 1970s, following the nationalization of banks.
(B) In the 1980s, following a rise in corrupt business practices.
(C) In the 2010s, with the introduction of the new Companies Act.
(D) In the 1990s, immediately after economic liberalization.

Ans :

(B) In the 1980s, following a rise in corrupt business practices.
The chapter states that ethics as a concept in Indian business evolved during the 1980s. This was a response to the rise of corrupt business practices and other unethical issues like bribery, deceptive advertising, and price collusion, which led to a decline in business confidence. This period marked the beginning of a move towards formal corporate governance.

Oct/Nov 2016

23. What major regulatory developments in India are cited as bringing business ethics to the forefront of business operations?
(A) The formation of the Monopolies and Restrictive Trade Practices Commission in 1969.
(B) The introduction of the Banking Regulation Act in 1949.
(C) The formation of SEBI in 1992 and the addition of Clause 49 (listing agreements) in 2005.
(D) The establishment of the NITI Aayog to replace the Planning Commission.

Ans :

(C) The formation of SEBI in 1992 and the addition of Clause 49 (listing agreements) in 2005.
The text highlights that in India, business ethics gained the center stage of business operations with two key developments. The first was the formation of the Securities and Exchange Board of India (SEBI) in 1992. The second was the addition of Clause 49, concerning listing agreements, in 2005, which mandated stricter corporate governance norms for listed companies.

May/June 2014

24. An organization passes through three stages in the event of a crisis. What is the correct chronological order of these stages?
(A) Crisis Situation, Post-crisis Stage, Pre-crisis Stage
(B) Pre-crisis Stage, Post-crisis Stage, Crisis Situation
(C) Post-crisis Stage, Pre-crisis Stage, Crisis Situation
(D) Pre-crisis Stage, Crisis Situation, Post-crisis Stage

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Ans :

(D) Pre-crisis Stage, Crisis Situation, Post-crisis Stage
In the event of any crisis, an organization is described as passing through three distinct stages in a specific sequence. The process begins with the Pre-crisis Stage, where prevention is possible. This is followed by the Crisis Situation, which is the triggering event itself. Finally, the organization enters the Post-crisis Stage, which involves recovery and analysis.

Oct/Nov 2007

25. During the Pre-crisis stage, what is identified as a useful tool for preventing an ethical crisis arising from internal reasons?
(A) Increasing marketing and advertising budgets to boost public image.
(B) Conducting ethical audits at regular intervals to identify weak areas.
(C) Hiring external consultants only after a crisis has already occurred.
(D) Focusing exclusively on maximizing short-term profits to build reserves.

Ans :

(B) Conducting ethical audits at regular intervals to identify weak areas.
The chapter suggests that for preventing an ethical crisis due to internal factors, conducting regular ethical audits is a useful measure. These audits help in proactively identifying weak ethical areas within the organization, such as issues in stakeholder relationships or product quality complaints, which could potentially jeopardize the company's reputation if left unaddressed during the pre-crisis stage.

May/June 2025

26. What is the primary objective of a Whistle-blower Policy in an organization?
(A) To punish employees who report minor grievances against their managers.
(B) To encourage reporting of illegal or unethical activities and protect the person reporting them.
(C) To create a formal system for employees to request salary increases and promotions.
(D) To monitor employees' personal activities outside of the workplace.

Ans :

(B) To encourage reporting of illegal or unethical activities and protect the person reporting them.
A Whistle-blower Policy is designed to help avoid a bigger crisis situation. Its objective is to encourage employees, customers, or the general public to come forward with information about illegal or unethical activities like bribery or fraud. Crucially, the policy also assures protection for the interests of the person who signals such wrongdoing.

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Oct/Nov 2019

27. In a crisis situation, what is the prime responsibility of the CEO?
(A) To personally handle all operational tasks to control the damage.
(B) To deny the existence of a crisis to avoid panic among stakeholders.
(C) To immediately resign to show accountability for the crisis.
(D) To handle communication with various stakeholders.

Ans :

(D) To handle communication with various stakeholders.
After a crisis is recognized, the leader, particularly the CEO, has several responsibilities, including implementing crisis management plans. However, the chapter specifically states that the prime responsibility of communication with the various stakeholders during the crisis situation lies with the CEO. This ensures a clear, consistent, and authoritative message is delivered during a critical time.

May/June 2009

28. What is the main focus of an organization during the Post-Crisis Stage?
(A) Analyzing the situation, identifying key reasons, and rebuilding reputation and trust.
(B) Blaming external factors and refusing to analyze internal reasons for the crisis.
(C) Immediately shutting down all operations to prevent further losses.
(D) Continuing business as usual, assuming the crisis will resolve itself over time.

Ans :

(A) Analyzing the situation, identifying key reasons, and rebuilding reputation and trust.

Ans :

(D) The perception of business ethics as a fad arises from a lack of interest and involvement by managers.
The chapter attributes the view of business ethics as a fad to the lack of interest and involvement of managers in ethical decision-making. The reality is that business ethics is deeply connected to the daily operations of an organization. It is not merely a theoretical concept but a practical framework that influences routine activities and decisions.

May/June 2007

12. According to the text, which of the following statements represents a common myth about business ethics?
(A) Business ethics safeguards the interests of stakeholders.
(B) Business ethics and corporate social responsibility (CSR) are the same.
(C) In the absence of ethics, a code of conduct can be violated.
(D) Business ethics can be managed, though often indirectly.

Ans :

(B) Business ethics and corporate social responsibility (CSR) are the same.
The chapter identifies the idea that business ethics is the same as corporate social responsibility (CSR) as 'Myth 7'. It clarifies that the two concepts are not identical. In reality, CSR is just one specific aspect or outcome that is driven by the broader framework of business ethics, not the entirety of it.

Oct/Nov 2023

13. What is the reality that counters 'Myth 6', the idea that ethics cannot be managed?
(A) Ethics can only be managed through strict, direct orders and punitive measures.
(B) The management of ethics is impossible because it is a personal and subjective matter for each employee.
(C) Ethics can be managed, though mostly indirectly, and an organization's priorities indicate its ethics.
(D) Managing ethics is the sole responsibility of the HR department and cannot be influenced by others.

Ans :

(C) Ethics can be managed, though mostly indirectly, and an organization's priorities indicate its ethics.
The chapter refutes the myth that ethics cannot be managed. The reality is that ethics can indeed be managed, although the management is often indirect. The priorities set by an organization, the values it emphasizes, and the culture it cultivates are all ways of managing its ethical climate and guiding the behavior of its employees.

May/June 2012

14. Which principle of business ethics emphasizes treating all people with utmost respect, regardless of sex, race, or national origin, and not merely as a means to an end?
(A) Fairness
(B) Honesty
(C) Prudence
(D) Dignity

Ans :

(D) Dignity
The principle of dignity involves treating others with the utmost respect, irrespective of their differences. It mandates that all individuals, including employees and customers, should be treated with equal respect and dignity. This principle asserts that people should not be considered merely as a means to an end, such as profit-making, but as ends in themselves.

Oct/Nov 2006

15. The principle of 'Fairness' in business ethics is primarily concerned with which of the following?
(A) Actions, processes, and consequences that are morally right, honorable, and equitable.
(B) Ensuring that every individual receives exactly what they want in all business dealings.
(C) Being truthful and straightforward in communication, linked primarily to individual character.
(D) The ability to make right decisions based on experience and accumulated knowledge over time.

Ans :

(A) Actions, processes, and consequences that are morally right, honorable, and equitable.

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established by being consistently truthful and reliable over time.

Oct/Nov 2017

33. The standard banking code of conduct includes several factors. Which of the following is defined as refraining from any kind of biased behavior?
(A) Integrity
(B) Reliability
(C) Neutrality
(D) Transparency

Ans :

(C) Neutrality
The chapter defines 'Neutrality' as a factor in the standard banking code of conduct that means to refrain from any kind of biased behaviour. This principle is distinct from 'Integrity', which is about not intending to treat a partner in an immoral way, and from 'Transparency' and 'Reliability', which relate to information and service quality.

May/June 2013

34. Which principle within the standard banking code of conduct means providing customers with information that is understandable, clear, and accurate?
(A) Neutrality
(B) Integrity
(C) Transparency
(D) Reliability

Ans :

(D) Reliability
'Reliability' in the context of a banking code of conduct is defined as the commitment to provide information to customers that is understandable, clear, and accurate. It also encompasses performing customer service impeccably and within a minimal time frame. This principle focuses on the quality and dependability of the bank's communication and service delivery.

Oct/Nov 2008

35. The principle of 'Transparency' in ethical banking requires a bank to:
(A) Keep customers clearly updated about their rights, obligations, and all aspects of products.
(B) Offer the lowest possible interest rates on all loan products.
(C) Share confidential customer data with third-party marketing agencies.
(D) Perform all customer service tasks without any errors or glitches.

Ans :

(A) Keep customers clearly updated about their rights, obligations, and all aspects of products.
'Transparency' means keeping customers clearly informed about their rights and obligations. It also involves being open about all aspects of the products and services offered. Furthermore, it includes the responsibility of banks to offer customers products or services that are suitable for their specific requirements and financial profile, ensuring no hidden clauses or conditions.

May/June 2006

36. Which of the following is NOT listed as a duty of a professional?
(A) Integrity in dealing and Honesty in actions.
(B) Prioritizing personal values over organizational values in all situations.
(C) Responsibility towards employer and customer.
(D) Leadership qualities at the work place.

Ans :

(B) Prioritizing personal values over organizational values in all situations.
The duties of a professional include integrity, honesty, humane values, thoughtfulness, objectiveness, responsibility, and leadership. While professionals must have strong personal values, the text notes that ethical dilemmas can arise from conflict between personal and organizational values, implying that automatically prioritizing personal values is not a prescribed duty and can be the source of a problem.

Oct/Nov 2013

37. An ethical dilemma for a professional is described as a situation that:
(A) Involves a clear choice between a legal action and an illegal action.
(B) Requires choosing among actions that may need evaluation as just or unjust.
(C) Can be easily resolved by referring to the company's employee handbook.
(D) Only occurs when there is a conflict with social values, not organizational ones.

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Ans :

(D) It is prescriptive, dealing with what must or ought to be done.
The chapter explicitly states that ethics are prescriptive in nature. This means they are concerned with establishing norms and standards for conduct, outlining what must or ought to be done in various situations. This prescriptive quality helps guide human behaviour away from actions that could be harmful to others or to society as a whole.

Oct/Nov 2005

5. How are 'Business values' characterized in the text?
(A) A formal, legally binding code of conduct for all employees.
(B) A set of rules that change frequently with business plans and strategies.
(C) An informal term for the core principles that guide how a business operates.
(D) The specific judgments made by investors and customers about a business action.

Ans :

(C) An informal term for the core principles that guide how a business operates.
'Business values' is presented as an informal term that explains the core principles or standards guiding a business's operations. These values define what the business stands for and influence its organizational culture. While business plans may change, these core values are expected to remain relatively stable, helping the business grow without losing its fundamental focus.

May/June 2020

6. What is the primary role of 'Business ethics' as defined in the chapter?
(A) To ensure maximum profitability for the organization at all costs.
(B) To establish principles that guide behaviour in the world of business.
(C) To replace an organization's core values with universal moral codes.
(D) To serve as an informal guide that can be changed based on strategy.

Ans :

(B) To establish principles that guide behaviour in the world of business.
'Business ethics' is defined as the established principles that guide behaviour within the business world. These principles help various stakeholders, such as investors, employees, customers, and the community, to determine whether a specific business action is right or wrong. Society's acceptance or rejection of a business is heavily influenced by adherence to these ethical principles.

Oct/Nov 2012

7. According to the text, whose judgments primarily influence society's acceptance or rejection of a business and its activities?
(A) The board of directors and senior management exclusively.
(B) Government regulators and international trade bodies.
(C) The company's direct competitors and industry analysts.
(D) Investors, employees, customers, interest groups, the legal system, and the community.

Ans :

(D) Investors, employees, customers, interest groups, the legal system, and the community.
The chapter states that a wide range of groups, including investors, employees, customers, interest groups, the legal system, and the community, often determine if a business action is right or wrong. Although the judgments of these groups are not inherently always correct, they significantly influence how society perceives and ultimately accepts or rejects a business and its activities.

May/June 2011

8. Based on Table 51.1, which of the following pairs correctly distinguishes between Business Ethics and Business Values?

Business Ethics	**Business Values**
Guidelines for conduct	Principles and ideals for judgment
Moral principle system	Induce thinking
Indicate - Magnitude of rightness	Indicate - Level of significance
Define - What is morally correct	Determine - What we want to achieve

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mortgage brokers. Their primary objective was business acquisition and building a loan book. Consequently, they "never bothered about the quality of borrowers they were targeting," leading to a large number of high-risk subprime loans being created.

May/June 2021

42. What was the crisis event at Satyam in December 2008 that led to a market backlash?

(A) The announcement of a merger with a major international IT firm.
(B) The announced acquisition of Maytas Infrastructure and Maytas Properties.
(C) The resignation of its founder and chairman, Mr. B. Ramalinga Raju.
(D) The delisting of its subsidiary, Satyam Infoway, from the NASDAQ.

Ans :

(B) The announced acquisition of Maytas Infrastructure and Maytas Properties.
The crisis at Satyam was triggered in December 2008 when the company announced its intention to acquire significant stakes in Maytas Infrastructure Ltd. and Maytas Properties Ltd. Both companies were promoted by the promoter family of Satyam. This move was perceived as a blatant conflict of interest, leading to a strong negative reaction from shareholders and the market.

Oct/Nov 2015

43. What was the stated intention behind the proposed acquisition of Maytas companies by Satyam, as per Mr. B. Ramalinga Raju's confession?

(A) To diversify Satyam's business into the high-growth infrastructure sector.
(B) To prevent a hostile takeover of the Maytas companies by a competitor.
(C) To "fill fictitious assets with real ones" and cover up the accounting fraud.
(D) To use Satyam's excess cash reserves for a profitable investment.

Ans :

(C) To "fill fictitious assets with real ones" and cover up the accounting fraud.
In his confession on January 7, 2009, Mr. B. Ramalinga Raju declared that the company's accounts were fraudulent and that over Rs. 7800 crores had been diverted. He admitted that the proposed acquisition of the Maytas companies was an attempt to cover up the fraud by using Satyam's funds to buy real assets to replace the non-existent ("fictitious") ones on its books.

May/June 2016

44. What was a key failure of the Independent Directors on Satyam's board?

(A) They actively participated in creating the fictitious invoices and bank statements.
(B) They alerted the media about the fraud before informing the board.
(C) They sold their entire shareholding a day before the crisis became public.
(D) They could not discover the fraud and ignored the significant cash component in the books.

Ans :

(D) They could not discover the fraud and ignored the significant cash component in the books.
The chapter faults the Independent Directors for their lack of oversight. They failed to discover the massive financial manipulation and, crucially, they "even ignored the significant amount of cash component in the books," which should have been a major red flag. Their role was to provide independent scrutiny, which they failed to do effectively.

Oct/Nov 2018

45. Which of the following is highlighted as a crucial learning from the Satyam case study regarding unethical acts?

(A) Major unethical acts are usually initiated by junior employees without management's knowledge.
(B) Major unethical acts are either initiated or actively supported by the top management.
(C) Unethical acts in one company have no impact on the reputation of the wider industry.
(D) Post-crisis handling is not as important as the initial investigation and prosecution.

Ans :

(B) Major unethical acts are either initiated or actively supported by the top management.
A key learning from the Satyam scandal is that "Top Management Actions are Crucial." The text explains that major unethical acts are not random occurrences from lower levels but are typically either initiated or actively supported by the top management. This underscores the

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importance of leadership's ethical tone and the need for strong oversight mechanisms.

May/June 2007

46. Match the principle of business ethics (List-I) with its correct description (List-II).

	List-I (Principle)		**List-II (Description)**
P.	Honesty	1.	Ability to make right decisions gained from experience.
Q.	Prudence	2.	Being truthful and straightforward
R.	Fairness	3.	Treating others with utmost respect regardless of differences
S.	Dignity	4.	Concern for actions and consequences that are morally right and equitable

(A) P-2, Q-1, R-4, S-3
(B) P-1, Q-2, R-3, S-4
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-1, R-4, S-2

Ans :

(A) P-2, Q-1, R-4, S-3
The correct matching is based on the definitions provided in the chapter. Honesty (P) is being truthful and straightforward (2). Prudence (Q) is the ability to make right decisions based on experience (1). Fairness (R) relates to morally right and equitable actions (4). Dignity (S) is about treating people with utmost respect (3).

Oct/Nov 2014

47. According to the Indian Bank Case Study, what was a primary reason for the bank's massive collapse?
(A) Slow adoption of state-of-the-art technology compared to its peers.
(B) Unethical and irresponsible practices of the promoters.
(C) An overly conservative lending policy that stifled growth.
(D) Excessive lending to the priority sector, which yielded low returns.

Ans :

(B) Unethical and irresponsible practices of the promoters.
The case study explicitly states that "The massive collapse of the bank was caused by unethical and irresponsible practices of the promoters." These practices included being involved in insider trading and stock market scams, misrepresenting accounts, misleading the board about capital market exposure, and violating regulatory limits, which ultimately led to the bank's failure.

May/June 2019

48. Which of the following is NOT listed as a lesson learned from the Indian Bank Case Study?
(A) The bank's failure was solely due to external market collapse, not internal governance.
(B) Granting special favours to a specific customer without proper evaluation is an unethical practice.
(C) Violation of the principle of trust by the promoters' group harmed depositor interests.
(D) Overlooking regulatory stipulations by assuming market conditions will remain constant is risky.

Ans :

(A) The bank's failure was solely due to external market collapse, not internal governance.
The lessons learned from the case study point to internal failures: unethical practices like special favors, overlooking regulations, and a violation of the principle of trust due to poor corporate governance by the promoters. The suggestion that the failure was solely due to external factors contradicts the chapter's analysis, which heavily emphasizes internal, unethical causes.

Oct/Nov 2006

49. Consider the following statements:
Statement 1: 'Business ethics' is a set of guidelines for conduct, while 'Business values' are principles that help in judging what is important.
Statement 2: 'Business ethics' determines what is morally correct in a situation, while 'Business values' determine what an organization wants to achieve.
(A) Both Statement 1 and Statement 2 are correct.
(B) Both Statement 1 and Statement 2 are incorrect.
(C) Statement 1 is correct, but Statement 2 is incorrect.
(D) Statement 1 is incorrect, but Statement 2 is correct.

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Ans :

(A) Both Statement 1 and Statement 2 are correct. Both statements accurately reflect the distinctions made in Table 51.1. Statement 1 correctly identifies business ethics as guidelines for conduct and business values as principles for judgment. Statement 2 correctly points out that business ethics helps define moral correctness in a given situation, while business values help determine the organization's goals or what it wants to achieve.

May/June 2021

50. Which of the following statements about the myths of business ethics is incorrect?

(A) A myth exists that business ethics is only about good guys sermonizing the bad guys.

(B) A common myth is that business ethics and corporate social responsibility are identical concepts.

(C) It is a myth that ethics cannot be managed within an organization.

(D) It is a reality, not a myth, that there is nothing new about business ethics.

Ans :

(D) It is a reality, not a myth, that there is nothing new about business ethics.

The chapter lists "There is nothing novel about business ethics" as Myth 4. The reality is that business ethics is crucial for safeguarding stakeholder interests and ensuring adherence to a code of conduct. Therefore, the statement that this is a reality and not a myth is incorrect according to the text provided.

Oct/Nov 2010

51. Read the following excerpt:

"Directors of a firm are responsible for creating wealth and happiness for all the stakeholders of an organization and improvising by using corporate governance. It is their duty to avoid ethical misconduct and also to provide leadership to prevent ethical misconduct in the organization. For this, most companies have developed formal systems of accountability, oversight, and control-known as corporate governance."

Based on the excerpt, what is the primary purpose of corporate governance?

(A) To maximize the wealth of directors and senior management.

(B) To replace the need for ethical leadership within the organization.

(C) To serve as a formal system for accountability, oversight, and control to prevent misconduct.

(D) To focus solely on creating wealth, with happiness being a secondary, optional goal.

Ans :

(C) To serve as a formal system for accountability, oversight, and control to prevent misconduct.

The excerpt clearly states that to fulfill their duty of avoiding and preventing ethical misconduct, companies have developed "formal systems of accountability, oversight, and control." It then explicitly identifies these systems as "corporate governance." This indicates that the primary purpose of corporate governance is to provide a structured framework to ensure accountability and prevent unethical behavior.

May/June 2005

52. Read the following excerpt on the principle of 'Openness':

"The concept of openness is that things should be as they are supposed to be, and not concealed in some manner. That is not concealing that which should be revealed."

Which of the following actions best exemplifies a violation of the principle of 'Openness'?

(A) A bank truthfully discloses all charges associated with a new savings account.

(B) A firm deliberately omits information about a known product defect from its marketing materials.

(C) A company's annual report clearly explains a recent decline in profits.

(D) An employee reports a case of fraud to senior management through the proper channels.

Ans :

(B) A firm deliberately omits information about a known product defect from its marketing materials.

The principle of 'Openness' is about not concealing what should be revealed. Deliberately omitting information about a known product defect is a clear act of concealment. This action directly violates the principle, as the company is hiding critical information that should be revealed to customers for their safety and informed decision-making, which goes against the idea of transparency.

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Ans :

(C) Aligning the identified core values with actual practices

The text emphasizes that for management by values to be successful, there must be a tangible link between the declared values and the company's actions. This is described as "Aligning values and practices." It is the process of putting the core values into actual practice, ensuring that the organization's behavior is consistent with its stated principles.

Oct/Nov 2011

14. How are 'morals' defined in the context of an individual?

(A) External societal laws and formal regulations that govern all public actions

(B) A set of flexible opinions that frequently change depending on the social situation

(C) A specific set of professional codes of conduct mandated by an employer or industry body

(D) An individual's guiding principles that have become an internalized automatic response

Ans :

(D) An individual's guiding principles that have become an internalized automatic response

Morals are described as an individual's guiding principles. They are principles that have been so deeply internalized that they trigger an automatic response to situations. These standards are typically absorbed during childhood from family, friends, and other social influences, becoming a fundamental part of an individual's unique personality and character.

May/June 2010

15. Which statement correctly differentiates between 'Moral Norms' and 'Moral Values'?

(A) Moral norms are general rules (e.g., 'Always tell the truth'), while moral values are statements of worth (e.g., 'Honesty is good').

(B) Moral norms are statements of worth (e.g., 'Honesty is good'), while moral values are general rules (e.g., 'Always tell the truth').

(C) Moral norms and moral values are identical concepts with no distinction.

(D) Moral norms relate to personal life, whereas moral values relate to professional life.

Ans :

(A) Moral norms are general rules (e.g., 'Always tell the truth'), while moral values are statements of worth (e.g., 'Honesty is good').

The text makes a clear distinction between these two concepts. Moral norms are expressed as general rules or statements that prescribe actions, such as 'Always tell the truth'. In contrast, moral values are expressed as statements that describe objects or features of objects having worth, for example, 'Honesty is good' or 'Anger is bad'.

Oct/Nov 2023

16. An individual's value-system is considered unique, like a fingerprint, because it is:

(A) Genetically determined and inherited from parents.

(B) A unique combination of different instrumental and terminal values.

(C) Entirely based on the corporate culture of their employer.

(D) A static set of beliefs that never changes throughout life.

Ans :

(B) A unique combination of different instrumental and terminal values.

The text likens an individual's value system to a fingerprint because of its uniqueness. This uniqueness arises from the specific combination of different instrumental and terminal values that each person holds. Since this combination varies from person to person, their interpretation of and response to ethical dilemmas will also differ significantly.

May/June 2014

17. What is the primary cause of value differences and conflicts within an organization?

(A) The complete absence of any values among employees

(B) The existence of two discrete and incompatible belief systems

(C) The over-communication of corporate goals and mission

(D) The similarity between individual values and corporate culture

Ans :

(B) The existence of two discrete and incompatible belief systems

Value differences and conflicts are attributed to the presence of two discrete, incompatible belief systems, which can be either perceived or

NODIA

"Action by the regulators were too less and too late," indicating a failure of oversight.

May/June 2014

56. A senior manager at a large corporation is under immense pressure to meet aggressive quarterly profit targets. He knows that the actual performance is falling short. He considers instructing the accounting team to book future revenues in the current quarter and create a few large, fake sales invoices to bridge the gap. This scenario most closely reflects the unethical practices that occurred in which case?
(A) The Global Financial Crisis
(B) Satyam Computer Services
(C) The Indian Bank Case Study
(D) All of the above

Ans :

(B) Satyam Computer Services
This scenario directly mirrors the core of the Satyam fraud. The case study on Satyam details how top management hatched a conspiracy to "artificially increase the revenues and profits in the books" by creating "Fictitious invoices." The manager's consideration of booking future revenues and creating fake invoices is a classic example of the financial manipulation seen at Satyam.

Oct/Nov 2007

57. A mortgage broker is offered a large commission to approve a home loan for a borrower with a poor credit history and unstable income, a classic subprime applicant. The broker knows the loan is risky, but his primary performance metric is the volume of loans generated. He approves the loan, which is then pooled with others and sold as a security. This behavior was a widespread contributing factor in which crisis?
(A) The Enron collapse
(B) The Satyam scandal
(C) The Indian Bank failure
(D) The Global Financial Crisis of 2007-08

Ans :

(D) The Global Financial Crisis of 2007-08
The case study on the Global Financial Crisis explicitly mentions that "mortgage brokers whose ultimate objective was business acquisition... never bothered about the quality of borrowers they were targeting." This scenario, involving the incentivized approval of a risky subprime loan that is then securitized, perfectly illustrates the unethical practices at the grassroots level that fueled the GFC.

May/June 2025

58. The CFO of a company proposes creating a separate, off-balance-sheet entity to hold the company's riskiest debts. This entity would be technically independent but is secretly backed by the company's own stock. The goal is to make the company's main financial statements appear much healthier and less leveraged than they actually are. This strategy is a hallmark of the scandal at:
(A) Enron
(B) Satyam
(C) Freddie Mac
(D) The private Indian Bank

Ans :

(A) Enron
The chapter's description of the Enron crisis highlights this exact mechanism. It states that "large liabilities were managed in an off-the-book entity by creating a special purpose vehicle, backed by Enron's stocks." The CFO's proposal to use an off-balance-sheet entity to hide debt is a direct reflection of the complex and unethical accounting practices central to Enron's downfall.

Oct/Nov 2019

59. The promoters of a new private bank use their influence to direct a substantial portion of the bank's loans to a single corporate entity in which they have an undisclosed interest. They bypass normal due diligence, assuming the entity will succeed. This concentration of risk and conflict of interest directly violates the principle of trust and reflects the reasons for failure in which case?
(A) The Enron Case
(B) The Satyam Case
(C) The Indian Bank Case Study
(D) The Global Financial Crisis

Ans :

(C) The Indian Bank Case Study
The Indian Bank Case Study highlights that "Special favours were given to a specific customer, without evaluating his ability to service the borrowings" and that the promoters' group followed poor corporate governance, leading to a "Violation of principle of trust." The scenario of channeling loans to a favored entity reflects

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this specific unethical practice and governance failure.

May/June 2009

60. An independent director on a company's board notices that the cash and bank balances shown in the financial reports are extraordinarily high and seem inconsistent with the company's operational cash flows. Despite this red flag, he chooses not to investigate further, trusting the management's and auditor's reports. This failure of oversight was a significant issue in the:

(A) Enron scandal, regarding its auditors.

(B) Global Financial Crisis, regarding rating agencies.

(C) Indian Bank failure, regarding the RBI.

(D) Satyam scandal, regarding its independent directors.

Ans :

(D) Satyam scandal, regarding its independent directors.

The analysis of the Satyam case explicitly mentions the role of the independent directors. It states that they "could not discover the fraud and financial statements manipulation of huge magnitude and even ignored the significant amount of cash component in the books." The scenario of an independent director overlooking suspiciously high cash balances directly aligns with this specific failure.

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CHAPTER 52
Ethics at The Individual Level

May/June 2021

1. What are 'values' best defined as?
   (A) Societal rules that mandate specific behaviors in all situations
   (B) Internalized standards or principles that evaluate what is desirable
   (C) Temporary preferences that guide an individual's short-term choices
   (D) External regulations imposed by cultural or religious institutions

Ans :

(B) Internalized standards or principles that evaluate what is desirable
Values are described as concepts of desirable behavior, representing internalized standards or principles. They influence an individual's evaluation of objectives by determining judgments about what is good, right, or desirable. These standards are derived from moral principles and are expected to have universal command and acceptability, guiding behavior in a fundamental way.

Oct/Nov 2015

2. Which of the following is identified as a primary characteristic of true values?
   (A) They must have universal command and acceptability
   (B) They are applicable only to a selected few individuals or groups
   (C) They are numerous and change rapidly with new experiences
   (D) They are primarily subconscious and cannot be actively learned

Ans :

(A) They must have universal command and acceptability
A key aspect of true values is their universal nature. The text states that as values describe what is desirable, it must be desirable for all and not just for a selected few. Furthermore, it emphasizes that true values must have universal command and acceptability, distinguishing them from more subjective or group-specific preferences and norms.

May/June 2008

3. Which of the following statements about the characteristics of values is INCORRECT?
   (A) Values provide standards of competence and morality.
   (B) Values are relatively perpetual and resilient to change.
   (C) Values are large in number, and individuals hold many of them.
   (D) Values are at the core of a personality, steering decisions and actions.

Ans :

(C) Values are large in number, and individuals hold many of them.
The text explicitly states that values are not large in number and that we have a few selective values. This contradicts the idea that individuals hold many values. The other statements are listed as correct characteristics: they provide standards, are perpetual and resilient, and form the core of personality, guiding behavior and decisions.

Oct/Nov 2024

4. In the context of values classification, what is a 'Terminal Value'?
   (A) A mode of behavior used as a means to achieve a more significant goal
   (B) A temporary belief that is subject to frequent change and re-evaluation
   (C) A principle that is only important in specific, short-term situations
   (D) An ultimate goal or a desired end-state of existence in one's lifetime

Ans :

(D) An ultimate goal or a desired end-state of existence in one's lifetime
A terminal value is defined as an ultimate goal that an individual desires to achieve within their lifetime. It represents an enduring belief that a particular end-state of existence is worth

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striving for and attaining. This contrasts with instrumental values, which are the modes of behavior or means to achieve these ultimate terminal goals.

May/June 2013

5. How are 'Instrumental Values' described?
(A) As ultimate, lifelong goals that an individual strives to attain
(B) As fundamental beliefs that are inconsistent and change frequently
(C) As tools or means for acquiring a terminal value
(D) As external rules that are obligatory for all members of a group

Ans :

(C) As tools or means for acquiring a terminal value
Instrumental values are explicitly defined as a tool or means for acquiring a terminal value. In simple terms, they represent the modes of behavior that an individual employs to reach their ultimate goals (terminal values). They are considered core values and are permanent in nature, guiding the actions and conduct necessary to achieve desired end-states.

Oct/Nov 2007

6. What is a key characteristic of 'Norms'?
(A) They are published, formal requirements of behavior.
(B) They are expectations of proper behavior, not requirements.
(C) They are always consistent and universally obeyed.
(D) They are enforced through legal systems rather than group sanctions.

Ans :

(B) They are expectations of proper behavior, not requirements.
The text clearly distinguishes norms as expectations of proper behavior, not the requirements of that behavior. It further clarifies that norms are informal guidelines, may be inconsistent, are not published, and may not be obeyed. Their enforcement comes from group sanctions like penalties, condemnation, or exclusion, rather than formal or legal mandates.

May/June 2025

7. A 'belief' is best described as which of the following?
(A) A universally accepted moral principle
(B) A formal guideline for social behavior
(C) A required action enforced by sanctions
(D) A thought considered to be true by a person

Ans :

(D) A thought considered to be true by a person
A belief is defined as some thought that an individual considers to be true. Beliefs can arise from certainties, probable events, or simply from faith in certain ideas. They are key constituents of our personalities and sense of individuality, forming the basis for our understanding of various phenomena and our reactions to others.

Oct/Nov 2012

8. What constitutes a 'corporate culture' within an organization?
(A) A set of values, beliefs, norms, and ways of solving problems shared by members of an organization
(B) The formal policies on ethics and the specific views of management leadership regarding profit
(C) The informal opportunities for unethical behavior and the day-to-day influence of co-workers
(D) The external legal and regulatory guidelines that the business must follow to operate

Ans :

(A) A set of values, beliefs, norms, and ways of solving problems shared by members of an organization
Corporate culture is defined as a shared set of values, beliefs, norms, and methods for solving problems among the employees of an organization. This shared framework guides behavior and decision-making within the company. Ethical culture is an important component of this broader corporate culture, representing the organization's ethical principles and policies.

May/June 2019

9. What is the primary function of an 'ethical culture' within an organization?
(A) It exclusively focuses on the views of management leadership on profits.

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(B) It exists separately from the main corporate culture.
(C) It represents the organization's ethical principles and facilitates ethical decisions.
(D) It is solely determined by opportunities for unethical behavior.

Ans :

(C) It represents the organization's ethical principles and facilitates ethical decisions.
The ethical culture is a vital component of the overall corporate culture. Its primary role is to represent the ethical principles of the organization as a whole. It incorporates corporate policies on ethics, leadership views on ethical issues, and facilitates ethical decision-making, thereby enhancing employees' commitment and sense of belonging within the enterprise.

Oct/Nov 2005

10. What are 'core values' in the context of a person or an organization?
(A) The fundamental beliefs that dictate behavior and help differentiate right from wrong
(B) Flexible guidelines that are expected to change based on quarterly business performance
(C) A set of aspirational goals that are intentionally kept separate from daily actions
(D) The specific, documented rules and detailed procedures for completing operational tasks

Ans :

(A) The fundamental beliefs that dictate behavior and help differentiate right from wrong
Core values are defined as the fundamental beliefs of a person or an organization. These guiding principles are not just abstract ideas; they dictate behavior and provide a framework that helps individuals and companies understand the difference between right and wrong. They are essential for determining if an organization is on the right path.

May/June 2006

11. 'Management by values' comprises three key activities. Which of the following correctly lists these activities?
(A) Maximizing profit, minimizing costs, and expanding market share
(B) Hiring employees, training staff, and conducting performance reviews
(C) Setting goals, developing strategies, and monitoring outcomes
(D) Identifying core values, communicating core values, and aligning values with practices

Ans :

(D) Identifying core values, communicating core values, and aligning values with practices
The concept of 'Management by values' is based on aligning individual and organizational values. This process is described as comprising three main components: first, identifying the organization's core values; second, effectively communicating these values to all stakeholders; and third, ensuring there is a consistent alignment between these stated values and the actual practices of the company.

Oct/Nov 2018

12. Read the following list of core values mentioned in the text: "Customer service; Employee care; Quality; Ethics; Integrity; Growth and Stability; Innovation; Flexibility; and Social Responsibility." Based on this list, which of the following is explicitly mentioned as a core value practiced by companies?
(A) Profit Maximization
(B) Employee Care
(C) Market Leadership
(D) Competitive Pricing

Ans :

(B) Employee Care
The provided text lists several core values that are commonly practiced by companies to ensure their survival and competitiveness. Among the choices provided, 'Employee Care' is explicitly included in this list. The other choices, while they might be business objectives, are not mentioned in this specific list of foundational core values from the text.

May/June 2022

13. What is the critical final step in making 'management by values' successful?
(A) Communicating the values only to the top management
(B) Identifying a very large and comprehensive list of values
(C) Aligning the identified core values with actual practices
(D) Ensuring values are kept abstract to allow for flexible interpretation

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Oct/Nov 2022

53. Read the following excerpt from the 'Learnings from the [Enron] Case':

"Unethical accounting policies and misrepresenting financial statements should not be used to project better business performance. Excessive performance pressure to achieve higher business goals leads to wrongful practices. Unfair practices and poor transparency in business dealings do not, only good corporate strategies help achieve success in the long run."

What is the main conclusion that can be drawn from this excerpt?

(A) Excessive performance pressure is a healthy motivator for employees.
(B) Misrepresenting financial statements is acceptable if it leads to short-term success.
(C) Long-term success is achieved through good corporate strategies, not through unethical shortcuts.
(D) Poor transparency is irrelevant as long as a company has a good corporate strategy.

Ans :

(C) Long-term success is achieved through good corporate strategies, not through unethical shortcuts.

The excerpt explicitly contrasts unethical practices (misrepresenting statements, unfairness, poor transparency) with what leads to genuine success. It concludes that these wrongful practices "do not" lead to long-run success, but rather "only good corporate strategies" do. This highlights the unsustainability of success built on an unethical foundation and emphasizes the importance of sound, ethical strategy.

May/June 2018

54. Read the following excerpt about the Satyam scandal:

"A conspiracy was hatched, since 2000, at the top management level to artificially increase the revenues and profits in the books. Falsification was done by deliberately leaving loopholes in the Computerized Accounting System. Fictitious invoices, fictitious bank transactions, and fictitious bank fixed deposits were created in the systems."

According to this excerpt, how was the financial fraud at Satyam executed?

(A) By physically stealing cash from the company's vaults.
(B) By collusion with government regulators to ignore reporting standards.
(C) By selling company assets at an inflated price to related parties.
(D) By manipulating the Computerized Accounting System to create fake transactions and assets.

Ans :

(D) By manipulating the Computerized Accounting System to create fake transactions and assets.

The source clearly details the methodology of the fraud. It states that falsification was achieved by leaving loopholes in the accounting software and then using this system to create "Fictitious invoices, fictitious bank transactions, and fictitious bank fixed deposits." This points directly to the manipulation of the computerized accounting system as the core mechanism for the fraud.

Oct/Nov 2016

55. Read the following excerpt from the Indian Bank Case Study:

"The bank management misled the Board also by mis-reporting its exposure to the capital market. The audited figures and the figures worked out by the regulator showed significant divergences. Action by the regulators were too less and too late."

What does this excerpt identify as a key failure in the bank's downfall?

(A) Management deliberately provided false information to the Board and regulatory action was inadequate.
(B) The Board of Directors actively participated in the fraud.
(C) The bank's technology systems were outdated and prone to errors.
(D) The regulator imposed overly strict penalties that caused the bank to collapse.

Ans :

(A) Management deliberately provided false information to the Board and regulatory action was inadequate.

The excerpt highlights two critical failures. First, it explicitly states that "bank management misled the Board" by misreporting its capital market exposure, leading to "significant divergences" between audited and actual figures. Second, it criticizes the regulatory response, noting that

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actual. These systems define what is considered "good" or "bad" and "right" or "wrong." When a discrepancy occurs between an individual's values and the corporate culture, friction and conflict become inevitable.

Oct/Nov 2016

18. An employee at a bank discovers that a new, highly profitable investment product involves funding companies with poor environmental records. This conflicts with the employee's strong personal value of environmental protection. This situation is a direct example of:

(A) A conflict caused by incompatible belief systems.
(B) A failure in communicating core corporate values.
(C) The successful alignment of personal and business ethics.
(D) An issue of individual responsibility for team failure.

Ans :

(A) A conflict caused by incompatible belief systems.
This scenario illustrates a conflict arising from incompatible belief systems, as described in the chapter. The employee's personal value system (environmental protection) is in direct conflict with the organization's apparent value system (profitability over environmental concerns). This discrepancy between individual values and corporate culture creates the friction and ethical dilemma the employee is facing.

May/June 2017

19. The concept of "person-organization fit" focuses on:

(A) The employee's ability to perform the technical aspects of their job.
(B) The harmony between an employee's salary expectations and the company's budget.
(C) The match between an individual's personal values and the organization's prevalent values.
(D) The alignment of the organization's values with legal and regulatory requirements.

Ans :

(C) The match between an individual's personal values and the organization's prevalent values.
The "person-organization fit" is a concept that evaluates the compatibility between an individual and an organization. Specifically, it focuses on how the constituents and sculpting of an individual's values match the organizational values. A strong fit suggests that the individual's approach and behavior will align well with the company's culture and expectations.

Oct/Nov 2020

20. Which of the following defines 'Personal ethics'?

(A) A set of moral principles established by a business entity to guide its transactions
(B) The specific legal and regulatory requirements that a business must adhere to for compliance
(C) The unwritten codes of conduct and informal guidelines set by an organization's culture
(D) A philosophy governing an individual's beliefs about morality, determined by conscience

Ans :

(D) A philosophy governing an individual's beliefs about morality, determined by conscience
Personal ethics are defined as a class of philosophy that governs an individual's beliefs about morality and correct or incorrect behaviors. A key aspect highlighted is that personal ethics are determined by an individual's own conscience. This distinguishes them from business ethics, which are set by a business entity for its operations.

May/June 2024

21. 'Business ethics' are primarily described as:

(A) An individual's personal conscience and internal compass regarding right and wrong.
(B) A philosophy dealing with broad social concerns that are unrelated to business activities.
(C) Moral principles set by a business entity to guide its conduct and transactions.
(D) The specific personal values held by a single powerful person within the organization.

Ans :

(C) Moral principles set by a business entity to guide its conduct and transactions.
Business ethics are the moral principles established by a business entity to direct its operations and transactions. These principles help determine what is right and wrong within the business context. They are often expressed as written or unwritten codes and are guided not

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a foundation for human moral values and ethical behavior.

May/June 2010

57. The process for restoring integrity involves two key actions. Which option correctly identifies them?

(A) First apologize, then find a plausible alibi for the failure.

(B) First secretly alter the commitment, then inform others about the necessary change.

(C) First acknowledge the failure, then complete the commitment by recommitting or altering it.

(D) First blame uncontrollable external factors, then apologize for the resulting outcome.

Ans :

(C) First acknowledge the failure, then complete the commitment by recommitting or altering it.

The text specifies a clear, two-part process for restoring integrity. The first step is to acknowledge the failure to keep a commitment without making excuses. The second step is to complete the commitment, which can be done either by recommitting to the original plan or by formally altering the commitment and communicating the change.

Oct/Nov 2023

58. According to the text, what is the ethical responsibility of a business in relation to social concerns?

(A) To become an active partner in dealing with social concerns and be part of the solution.

(B) To remain a neutral observer and not get directly involved in any social issues.

(C) To focus solely on its own interests, even if they clearly conflict with the social good.

(D) To delegate all social responsibilities to specific government and non-profit organizations.

Ans :

(A) To become an active partner in dealing with social concerns and be part of the solution.

The chapter states that it is the ethical responsibility of a business to become a more active partner in addressing social concerns. Rather than being part of the problem, a business should creatively find ways to become part of the solution, aligning its actions with broader societal well-being and not just its own immediate interests.

May/June 2014

59. Which statement about the application of business ethics is correct?

(A) Ethics in marketing allows for misleading advertising as long as it is effective.

(B) Ethics in finance is primarily about maximizing company profit, even at the customer's expense.

(C) Ethics in human resources is not concerned with compensation or workplace safety.

(D) Ethics in production is a holistic approach that includes the well-being of the consumer and society.

Ans :

(D) Ethics in production is a holistic approach that includes the well-being of the consumer and society.

The text describes the ethics of production as a holistic business approach. This approach is not narrowly focused on manufacturing processes alone but includes a broader concern for the well-being of the consumer who uses the product and of society as a whole, which may be impacted by the production activities.

Oct/Nov 2016

60. When an individual fails to take responsibility, what behavior do they typically exhibit?

(A) They immediately recommit to fulfilling the task.

(B) They look for an alibi and give explanations for non-fulfilment.

(C) They take on accountability for their personal situation.

(D) They offer to assist team members who are struggling.

Ans :

(B) They look for an alibi and give explanations for non-fulfilment.

The chapter explicitly states that when we fail to take responsibility or the onus of a situation, we tend to look for an alibi. This involves giving explanations for the non-fulfilment of results and concluding that the situation was impacted by uncontrollable factors, thereby deflecting personal accountability for the outcome.

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(B) The common act of blaming other people or external factors for one's own situation
(C) The psychological state of feeling guilty or regretful about events clearly beyond one's control
(D) The defensive practice of providing detailed explanations for the non-fulfilment of expected results

Ans :

(A) A moral, legal, or mental accountability for one's actions and situation
Responsibility is defined as a moral, legal, or mental accountability. For an individual, it means taking on accountability for one's personal situation, including what they do, what they have, and who they are. It is a commitment to being an agent in the world, rather than blaming others or external factors for one's circumstances.

May/June 2011

27. When a team fails to perform, where does the responsibility lie according to the principles of team management?
(A) Solely on the team member who made the biggest error
(B) On uncontrollable external factors that impacted the results
(C) Exclusively on the manager who leads the team
(D) On the whole team, with the manager being supportive

Ans :

(D) On the whole team, with the manager being supportive
The text states that when working as a team member, the responsibility for the team's failure to perform lies with the whole team. It also highlights the manager's role in this context, which is to be supportive of team members, assist them if needed, and give them equal opportunities to contribute.

Oct/Nov 2010

28. The moral principle known as 'The Golden Rule' is also referred to as:
(A) The ethic of self-interest
(B) The ethic of reciprocity
(C) The ethic of compliance
(D) The ethic of authority

Ans :

(B) The ethic of reciprocity
The chapter explicitly states that the moral principle known as 'The Golden Rule' is also known as the "ethic of reciprocity." This principle is based on the concept of a mutual interchange of giving and receiving in social relationships, where an action affecting another is reciprocated with an action of approximately equal effect.

May/June 2009

29. Consider the following rules:
1. Everything you want others to do to you, you should do to others.
2. Do not do to others that you do not wish them to do to you.
3. Do not do anything to others, which, if done to you can cause harm to you.

Which concept do these three rules establish the foundation for?
(A) Corporate governance standards
(B) Legal and regulatory compliance
(C) Human moral values
(D) Financial integrity principles

Ans :

(C) Human moral values
The text presents these three statements as the "three Golden rules of ethics." It then clarifies that these rules collectively establish the foundation of human moral values. They serve as a screening test for determining the validity of what we decide as our core values, grounding them in the principle of reciprocal consideration and empathy.

Oct/Nov 2009

30. Having a passion to do right, which involves recognizing the importance of ethical behavior and being willing to face challenges, is described as a:
(A) Universal legal requirement
(B) Corporate policy
(C) Financial metric
(D) Personal characteristic

Ans :

(D) Personal characteristic
The passion to do the right thing is presented as a personal characteristic. This quality is described as the bond holding ethical concepts together and involves recognizing the importance of ethical conduct and possessing the willingness to tackle challenges and make difficult choices. It can be

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developed early or over time through experience and reason.

May/June 2016

31. What is the fundamental purpose of 'ethical reasoning'?
(A) To select the course of action that is best supported after evaluating alternatives
(B) To find a plausible justification for any course of action, whether ethical or not
(C) To systematically avoid making difficult decisions by delegating them to other people
(D) To strictly ensure that all business decisions ultimately lead to maximum short-term profitability

Ans :

(A) To select the course of action that is best supported after evaluating alternatives
Ethical reasoning is defined as a process. It involves recognizing which decisions need ethical judgment, identifying potential reasonable courses of action, finding support for those options, and ultimately selecting the course of action that is best supported. It is a structured way of thinking through ethical problems to arrive at a well-justified decision.

Oct/Nov 2022

32. According to Lawrence Kohlberg's theory of moral judgment, moral judgment is based on the concept of:
(A) Profitability, efficiency, and market share
(B) Objectivity, justice, and fairness
(C) Subjectivity, personal preference, and emotion
(D) Authority, hierarchy, and strict obedience

Ans :

(B) Objectivity, justice, and fairness
The text references Lawrence Kohlberg's theory of moral judgment, specifically stating that he explained that moral judgment is based on the concept of objectivity, justice, and fairness. This implies that ethical decisions should be grounded in impartial principles rather than purely personal feelings, biases, or the pursuit of self-interest alone.

May/June 2023

33. Which area of business ethics is concerned with issues like health and safety at the workplace, skill enhancement, compensation, and the overall employee-employer relationship?
(A) Ethics of finance
(B) Ethics of human resource management
(C) Ethics of sales and marketing
(D) Ethics of production

Ans :

(B) Ethics of human resource management
The text specifies that the ethics of human resource management is significantly important because it is directly concerned with human issues. These issues include health and safety at work, opportunities for skill enhancement and development, fair compensation, and the nature of the overall relationship between the employer and the employee.

Oct/Nov 2025

34. The text states: "Professionals in financial services business have to serve both their customers and company with honesty and integrity. They must avoid conflict of interest and provide information to its customers in full-accurate, fair, timely and understandable manner; and respect the confidentiality of information." This description pertains to which area of applied business ethics?
(A) Ethics of finance
(B) Ethics of production
(C) Ethics of human resource management
(D) Ethics of sales and marketing

Ans :

(A) Ethics of finance
The provided excerpt is a direct description of the 'Ethics of finance'. It outlines the core duties of financial service professionals, which include balancing the interests of customers and the company, maintaining honesty and integrity, avoiding conflicts of interest, providing clear and accurate information, and respecting customer confidentiality, all of which are central to financial ethics.

May/June 2007

35. Match the area of business ethics in List-I with its corresponding description in List-II.
List-I
P. Ethics of sales and marketing
Q. Ethics of production
R. Ethics of finance
S. Ethics of human resource management

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List-II

1. Holistic approach focusing on the well-being of the consumer and society as a whole.
2. Concerned with human issues like compensation and the employee-employer relationship.
3. Promotes honesty, fairness, and responsibility, ensuring advertising is not misleading.
4. Serving customers and company with integrity and respecting confidentiality of information.

Code:

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-3, R-2, S-4
(C) P-4, Q-2, R-1, S-3
(D) P-2, Q-4, R-3, S-1

Ans :

(A) P-3, Q-1, R-4, S-2
(P) Ethics of sales and marketing is about promoting honesty and ensuring advertising is not misleading (3). (Q) Ethics of production takes a holistic approach to consumer and societal well-being (1). (R) Ethics of finance involves integrity and confidentiality in serving customers (4). (S) Ethics of human resource management deals with employee-related issues like compensation (2).

Oct/Nov 2017

36. An 'ethical dilemma' occurs when there is a:
(A) Clear choice between a right action and a wrong action
(B) Decision that has no significant consequences
(C) Situation with only one possible course of action
(D) Clash between two rights

Ans :

(D) A clash between two rights
The text defines an ethical dilemma specifically as a situation that occurs when there is a clash between two rights. The problem is not choosing between right and wrong, but deciding which of the two 'right' options is 'more right'. The example given is continuing an unprofitable unit (burdening the company) versus closing it (causing job losses).

May/June 2018

37. A pharmaceutical company's product division has become consistently unprofitable. Continuing its operations would mount losses and burden other profitable units. However, closing the division would result in the loss of jobs for all its employees. This situation, where both rival actions seem right in some way, is a classic example of:
(A) A failure of integrity
(B) A conflict in personal values
(C) An ethical dilemma
(D) An issue of individual responsibility

Ans :

(C) An ethical dilemma
This scenario is used in the text as a direct example of an ethical dilemma. It presents a clash between two 'rights': the right/responsibility to ensure the company's financial health and the right/responsibility to protect employees' livelihoods. The difficulty lies in deciding which right takes precedence, which is the essence of an ethical dilemma.

Oct/Nov 2008

38. Which of the following is NOT listed as a characteristic of a complex ethical dilemma faced by an organization?
(A) Significant value conflicts among differing interests.
(B) A clear and obvious solution supported by all stakeholders.
(C) Real alternatives that are equally justifiable.
(D) Significant consequences on stakeholders in the situation.

Ans :

(B) A clear and obvious solution supported by all stakeholders.
The text lists three characteristics of a complex ethical dilemma: significant value conflicts, equally justifiable real alternatives, and significant consequences for stakeholders. The presence of a clear and obvious solution is the opposite of what defines a dilemma; the very nature of a dilemma is the difficulty in choosing between competing, justifiable options.

May/June 2020

39. In resolving ethical dilemmas, what does 'End-result based thinking' advocate?
(A) Following the established rules and policies strictly, regardless of the outcome.
(B) Treating others with love and compassion, as you would like to be treated.

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with the question: "Is this action consistent with relevant principles?". This lens prompts the decision-maker to check the proposed action against established ethical principles, rules, and values to ensure consistency and integrity.

Oct/Nov 2007

48. In the extended framework for ethical decision-making, the question "Can I share the action with media tomorrow?" corresponds to which lens?
(A) The Prescription lens
(B) The Public lens
(C) The Person lens
(D) The Power lens

Ans :

(B) The Public lens
The text presents three supplementary lenses to make decision-making easier. The 'Public' lens is a test of transparency and public scrutiny, encapsulated by the question, "Can I share the action with media tomorrow?". It forces the decision-maker to consider how the action would be perceived if it were made public knowledge.

May/June 2025

49. A bank is considering launching a new product. The manager in charge uses Lynn Paine's 'moral compass' to evaluate the decision. They ask, "Will this product genuinely help our customers achieve their financial goals, or is it designed primarily to exploit a loophole for the bank's benefit?" Which lens of the moral compass is the manager applying?
(A) Principle
(B) Purpose
(C) People
(D) Power

Ans :

(B) Purpose
The manager's question, "Will this action serve a worthwhile purpose?", directly reflects the 'Purpose' lens of Lynn Paine's moral compass. This lens requires the decision-maker to evaluate the fundamental goal or intent behind the action. It scrutinizes whether the action is aimed at achieving a valuable and legitimate objective for the stakeholders involved.

Oct/Nov 2012

50. According to the extended framework for ethical decision-making, the 'Person' lens prompts the decision-maker to ask which of the following questions?
(A) Am I setting a good example for others?
(B) Does the action violate any of the Bank's policy, regulation or law?
(C) Do we have power to take this decision?
(D) Will this action serve a worthwhile purpose?

Ans :

(A) Am I setting a good example for others?
The 'Person' lens focuses on the decision-maker's own character and role as a model for others. The corresponding question is, "Am I setting a good example for others?". This encourages introspection about whether the decision reflects the kind of personal and professional character that the individual wishes to embody and promote within the organization.

May/June 2019

51. Which of the following is NOT a component of Lynn Paine's four-part 'moral compass' for guiding ethical decision-making?
(A) Purpose
(B) Principle
(C) Profit
(D) People

Ans :

(C) Profit
Lynn Paine's 'moral compass' model consists of four specific lenses: Purpose, Principle, People, and Power. Each lens poses a question to help evaluate the ethical content of a decision. While profit may be a consequence or motivation, it is not one of the four core frames in this particular ethical decision-making tool.

Oct/Nov 2005

52. Statement I: 'Terminal values' are the modes of behavior or means for acquiring an ultimate goal.
Statement II: 'Instrumental values' are the ultimate goals or desired end-states of existence one desires to achieve in a lifetime.
(A) Statement I is correct, and Statement II is incorrect.
(B) Statement II is correct, and Statement I is incorrect.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

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the personal characteristics of the individual manager, which are classified separately as 'individual factors'.

Oct/Nov 2015

44. A bank manager is deciding whether to approve a loan for a struggling local business. The manager's decision is heavily influenced by their own upbringing in a small town and a strong belief in supporting local communities. This is an example of which type of factor influencing dilemma resolution?

(A) An organizational factor directly related to the company's formal lending policy
(B) An individual factor related to personal background and characteristics
(C) A procedural factor stemming from the bank's established decision-making hierarchy
(D) A cultural factor based on the bank's shared organizational values about community

Ans :

(B) An individual factor related to personal background and characteristics
The manager's decision is being shaped by their personal history and beliefs, which falls under the category of 'individual factors'. The text identifies "the personal background and characteristic influencing his/her approach" as a key individual factor. This is distinct from organizational factors like company policy or culture, which are external to the manager's personal makeup.

May/June 2008

45. The traditional framework for ethical decision-making involves weighing four factors. If even a single one of these factors is not acceptable, the decision is considered unethical. Which of the following is NOT one of those four factors?

(A) The desired outcome of a decision
(B) The means used to achieve the desired outcome
(C) The popularity of the decision among employees
(D) The motivation behind the decision

Ans :

(C) The popularity of the decision among employees
The text outlines a traditional framework for ethical decision-making that involves weighing four specific factors: the desired outcome, the means used to achieve it, the motivation behind it, and the possible consequences. The popularity of the decision is not listed as one of these core ethical considerations in this traditional model.

Oct/Nov 2024

46. When a decision requires prioritizing between competing ethical values, what is the recommended course of action for the decision-maker?

(A) To choose the option that is easiest to implement.
(B) To delegate the decision to a subordinate to avoid responsibility.
(C) To select the option that offers the highest short-term profit.
(D) To act in a way that creates the greatest good and least harm for the most people.

Ans :

(D) To act in a way that creates the greatest good and least harm for the most people.
The text addresses situations where one ethical value must be sacrificed for another. In such cases, it advises that the decision-maker should act in a way that will create the greatest amount of good and the least amount of harm to the greatest number of people. This principle guides choices in complex ethical trade-offs.

May/June 2013

47. Harvard Ethics Professor Lynn Paine's four-part 'moral compass' approach uses four frames or lenses to guide ethical decision-making. These are:

1. Purpose
2. Principle
3. People
4. Power

Which question corresponds to the 'Principle' lens?

(A) Is this action consistent with relevant principles?
(B) Will this action serve a worthwhile purpose?
(C) Does this action respect the legitimate claims of the people likely to be affected?
(D) Do we have power to take this decision?

Ans :

(A) Is this action consistent with relevant principles?
Lynn Paine's moral compass provides four questions, each corresponding to one of the lenses. The 'Principle' lens is directly associated

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(C) Investigating for a third way out of the situation.
(D) Doing what gives the greatest good for the maximum number of people.

Ans :

(D) Doing what gives the greatest good for the maximum number of people.
The chapter outlines three approaches to resolving dilemmas. 'End-result based thinking' is the approach that focuses on outcomes. It directs the decision-maker to choose the action that is projected to produce the greatest good for the maximum number of people. This is also known as a utilitarian approach to ethics.

Oct/Nov 2013

40. A manager resolving an ethical dilemma by strictly adhering to the company's code of conduct, without deviation, is employing which type of thinking?
(A) Rule based thinking
(B) End-result based thinking
(C) Care based thinking
(D) Innovative thinking

Ans :

(A) Rule based thinking
'Rule based thinking' is one of the three approaches for resolving dilemmas. It is characterized by the principle of following the rule strictly. In this mode, the decision is based on adhering to established laws, policies, or principles, regardless of the specific outcome, because the rule itself is considered the ultimate guide for right action.

May/June 2015

41. Which of the following is identified as an 'organizational factor' influencing the management of an ethical dilemma?
(A) The manager's personal perception of the job
(B) The personal background and characteristics of the decision-maker
(C) The organizational culture and shared values
(D) The personal value system of the manager

Ans :

(C) The organizational culture and shared values
The text classifies factors influencing dilemma management into two categories: organizational and individual. The organizational culture and shared values are explicitly listed as an organizational factor, alongside company policies and organizational structure. The other options, such as personal perception and background, are categorized as individual factors affecting the decision-maker.

Oct/Nov 2006

42. Assertion (A): When resolving an ethical dilemma, the decision-maker should treat others with love and compassion.
Reason (R): This approach is known as 'Care based thinking' and aligns with the Golden Rule.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
The assertion (A) describes the principle of treating others with love and compassion. The reason (R) correctly identifies this approach as 'Care based thinking' and links it to the Golden Rule ("Do to others, you would like them do to you"). This is a direct and accurate reflection of the concepts presented in the chapter.

May/June 2021

43. Consider the following factors that influence the management of dilemmas:
1. The company policies, rules, work-procedures and systems.
2. The organizational culture and shared values.
3. The organizational structure, authority-orientation and hierarchy.
4. The attitude of top management.
These factors are broadly classified as:
(A) Individual Factors
(B) External Factors
(C) Financial Factors
(D) Organizational Factors

Ans :

(D) Organizational Factors
The text explicitly lists these four points as the "organization factors" that influence how ethical dilemmas are managed within a company. They all relate to the structure, culture, and established systems of the organization itself, as opposed to

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Ans :

(D) Both Statement I and Statement II are incorrect.
The statements have the definitions reversed. Terminal values are the ultimate goals or desired end-states of existence (as described in Statement II). Instrumental values are the modes of behavior or means used to acquire those terminal values (as described in Statement I). Therefore, both statements as presented are incorrect.

May/June 2006

53. Consider the following statements regarding ethics and culture:
1. Ethical culture is a component of the broader corporate culture.
2. An organization's ethical culture can be influenced by co-workers and opportunities for unethical behavior.
3. Corporate culture is a set of values, beliefs, and norms shared by the management only.

Which of the statements is/are correct?
(A) 1 only
(B) 1 and 2 only
(C) 2 and 3 only
(D) 1, 2 and 3

Ans :

(B) 1 and 2 only
Statement 1 is correct, as ethical culture is part of corporate culture. Statement 2 is also correct because the text mentions that ethical culture exhibits the influence of co-workers and opportunities for unethical behavior. Statement 3 is incorrect because corporate culture is shared by all employees of an organization, not just management.

Oct/Nov 2018

54. Identify the INCORRECT pair.
(A) Norms : Expectations of proper behavior
(B) Integrity : Compromising on a code of values
(C) Beliefs : Thoughts considered to be true by a person
(D) Morals : An individual's guiding principles

Ans :

(B) Integrity : Compromising on a code of values
Integrity is defined as firm adherence to a code of values, meaning one is complete or undivided. Compromising on a code of values is the opposite of integrity; it is what happens when an individual or business gets "out of integrity". The other pairs correctly match the term with its definition from the chapter.

May/June 2022

55. Evaluate the following statements related to resolving dilemmas:
1. End-result based thinking focuses on achieving the greatest good for the maximum number of people.
2. Rule based thinking involves strictly following established rules.
3. Care based thinking involves treating others with compassion.
4. An ethical dilemma is a clash between a right and a wrong.

Which combination of statements is correct?
(A) 1, 2, and 4
(B) 1, 3, and 4
(C) 2, 3, and 4
(D) 1, 2, and 3

Ans :

(D) 1, 2, and 3
Statements 1, 2, and 3 accurately describe the three approaches to resolving dilemmas: end-result, rule-based, and care-based thinking, respectively. Statement 4 is incorrect; an ethical dilemma is defined as a clash between two 'rights', not a clash between a right and a wrong, which would be a simpler moral choice.

Oct/Nov 2011

56. What is the central idea suggested by 'The Golden Rule'?
(A) People should aspire to treat others as they themselves would like to be treated.
(B) People should prioritize their own interests above all others.
(C) People should follow established rules and laws without question.
(D) People should always seek to maximize personal gain in social interactions.

Ans :

(A) People should aspire to treat others as they themselves would like to be treated.
The Golden Rule, or the ethic of reciprocity, suggests a fundamental principle for social interaction. Its core idea is that people should treat others—with tolerance, consideration, and compassion—in the same way they would want to be treated themselves. This principle serves as

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only by moral principles but also by legal and regulatory requirements.

Oct/Nov 2014

22. Which of the following statements about the conflict between personal and business ethics is identified in the chapter?
(A) Individual ethics always align perfectly with group ethics in an organization.
(B) An individual's ethics may clash with the predominant group ethics.
(C) Decisions in organizations are always taken by individuals, never by groups.
(D) The solution to ethical dilemmas is to always compromise with management.

Ans :

(B) An individual's ethics may clash with the predominant group ethics.
The chapter explicitly lists several ways ethical clashes can arise. One of the primary sources of conflict mentioned is when an individual's personal ethics clash with the group ethics that are predominant within the organization. The text also notes that compromising with management is not the solution to resolving these important ethical dilemmas.

May/June 2012

23. A new CEO joins a bank and, through their authority, begins to approve high-risk loans that benefit personal associates, disregarding the bank's established risk assessment policies. This action is negatively impacting the bank's financial stability. This scenario best illustrates which type of ethical clash?
(A) A conflict between the ethics of sales and marketing and the ethics of finance.
(B) A situation where employees are expected to ignore an unethical issue.
(C) A clash between individual ethics and the formal group ethics of a committee.
(D) The ethics of a powerful person becoming predominant and having a negative impact.

Ans :

(D) The ethics of a powerful person becoming predominant and having a negative impact.
This case is a clear example of the type of conflict where the individual ethics of a single powerful person (the CEO) are pre-dominant in the organization. Because that person is acting unethically, the impact on the organization is negative, undermining its policies and financial health.

Oct/Nov 2019

24. What is 'individual integrity' explained as?
(A) The quality of being complete and undivided through firm adherence to a code of values
(B) The practical ability to compromise one's personal values in order to fit in with a group
(C) The consistent act of prioritizing a firm's financial interests over all ethical considerations
(D) The social skill of finding a plausible alibi whenever a professional commitment is not met

Ans :

(A) The quality of being complete and undivided through firm adherence to a code of values
Integrity, for both an individual and a business, is defined as firm adherence to a code of values. It signifies the quality or state of being complete or undivided. This means being true to one's values and keeping commitments to oneself and others. When this commitment is broken, the individual or business "gets out of integrity."

May/June 2005

25. What is the first essential step for an individual or firm to restore integrity after failing to keep a commitment?
(A) Find a valid alibi to explain the failure.
(B) Apologize without any further action.
(C) Acknowledge the failure to keep the commitment.
(D) Alter the original commitment secretly.

Ans :

(C) Acknowledge the failure to keep the commitment.
The text outlines a two-step process for restoring integrity. The very first and essential step is to acknowledge that a commitment has not been kept. It explicitly states that "no alibi is required here." This acknowledgement must precede the second step, which involves completing the commitment by either recommitting or altering it.

Oct/Nov 2021

26. What is 'individual responsibility' defined as?
(A) A moral, legal, or mental accountability for one's actions and situation

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CHAPTER 53
Ethical Dimensions: Employees

Oct/Nov 2022

1. According to the text, which of the following is a primary driver of unethical behaviour among employees, stemming from a capitalist tendency?
   (A) Long-term strategic planning for sustainable growth
   (B) The pursuit of profit at any cost for short-term gains
   (C) A focus on employee well-being and work-life balance
   (D) Adherence to strict regulatory compliance and ethical codes

   Ans :

   (B) The pursuit of profit at any cost for short-term gains
   The text identifies the "profit at any cost" mindset as a capitalist tendency that leads to selfish behaviour. This encourages adopting any means necessary to achieve short-term gains and meet performance targets, often at the expense of ethical considerations. This pressure can be a root cause of unethical conduct within an organization.

May/June 2011

2. How can traditional Key Performance Indicators (KPIs) contribute to unethical behaviour in a banking environment?
   (A) By attaching quantitative targets that make employees focus solely on results, not methods
   (B) By focusing on qualitative aspects of customer service and employee satisfaction
   (C) By setting easily achievable targets that do not challenge employees
   (D) By promoting a collaborative environment where targets are shared among teams

   Ans :

   (A) By attaching quantitative targets that make employees focus solely on results, not methods
   The introduction states that the pressure to accomplish performance and get incentives based on traditional KPIs can be a root cause of unethical behaviour. The quantitative targets attached to these KPIs can cause employees to focus exclusively on achieving those targets, regardless of whether the methods used are ethical or unethical.

Oct/Nov 2014

3. Which of the following is explicitly listed as an example of abuse of official position by a bank employee?
   (A) Working overtime to complete pending credit appraisals
   (B) Using a personal vehicle for an official bank visit
   (C) Showing preference to customers who are relatives or friends
   (D) Recommending a high-performing product to all customers equally

   Ans :

   (C) Showing preference to customers who are relatives or friends
   The text provides several examples of the abuse of official power. One such example is showing preference to customers based on the employee's proximity to them, such as relatives and friends. This act is considered unethical as it involves using an official position for personal bias rather than for impartial service delivery.

May/June 2019

4. An employee making false claims for expenses that are beyond their fixed perquisites is an example of what type of unethical conduct?
   (A) Insider trading
   (B) Job discrimination
   (C) Conflict of interest
   (D) Abuse of official position

   Ans :

   (D) Abuse of official position
   The chapter explicitly categorizes making false claims beyond the fixed perquisites as an abuse of official position. This action involves misusing the employee's role and the bank's resources for

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(C) Within the mandatory quarterly report submitted to the SEBI
(D) At one place along with Notes to Accounts in its financial statements

Ans :

(D) At one place along with Notes to Accounts in its financial statements
The section on "Summary of Significant Accounting Policies" directs that "Banks should disclose various accounting policies regarding key areas of operations at one place along with Notes to Accounts in their financial statements." This consolidation helps stakeholders easily find and understand the accounting principles the bank follows for its key operations.

Oct/Nov 2020

31. Which Accounting Standard is specifically mentioned as being applied for reporting related party relationships and transactions?
(A) Accounting Standard 18
(B) Accounting Standard 1
(C) Accounting Standard 9
(D) Accounting Standard 22

Ans :

(A) Accounting Standard 18
The chapter has a dedicated subsection titled "Accounting Standard 18 – Related Party Disclosures." It clearly states that "This Standard is applied in reporting related party relationships, and transactions between a reporting enterprise and its related parties." This standard is crucial for transparency in transactions that could involve conflicts of interest.

May/June 2022

32. The illustrative disclosure format for AS 18 suggested by the RBI for banks is a modified version of a recommendation from which body?
(A) The Securities and Exchange Board of India (SEBI)
(B) The Institute of Chartered Accountants of India (ICAI)
(C) The Ministry of Finance, Government of India
(D) The Indian Banks' Association (IBA)

Ans :

(B) The Institute of Chartered Accountants of India (ICAI)
The text specifies that the illustrative disclosure format for AS 18 was recommended by the ICAI as part of its General Clarification (GC) 2/2002. This format was then "suitably modified to suit banks" and an illustrative version was suggested by the RBI, indicating a collaborative or adaptive approach to setting standards.

Oct/Nov 2007

33. Which of the following statements regarding accounting practices in banks is incorrect?
(A) RBI has issued instructions regarding the presentation of financial statements.
(B) Accounting policies should be disclosed in different sections of the annual report for clarity.
(C) Banks may make more comprehensive disclosures than the minimum required by RBI.
(D) Disclosure of comparative financial information of the previous period is mandatory.

Ans :

(B) Accounting policies should be disclosed in different sections of the annual report for clarity.
This statement is incorrect. The text explicitly recommends that banks should disclose their various accounting policies regarding key operations "at one place" along with the Notes to Accounts. This consolidation is meant to improve clarity and accessibility for stakeholders, rather than scattering the information across different sections of the financial statements.

May/June 2025

34. What is the fundamental goal of Human Resource Management (HRM) as described in the text?
(A) To design and manage formal systems to optimally utilise people as human resources
(B) To systematically minimize employee compensation and benefits to reduce overall operational costs
(C) To focus the department's resources solely on the recruitment and initial training of new employees
(D) To primarily enforce strict disciplinary actions to ensure employee compliance with the code of conduct

Ans :

(A) To design and manage formal systems to optimally utilise people as human resources

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(B) Only the bank's direct competitors
(C) All stakeholders, including customers, vendors, and promoters
(D) Only senior management within the bank

Ans :

(C) All stakeholders, including customers, vendors, and promoters
The text states that employees are expected to maintain the confidentiality of data relating to all stakeholders. This is a broad obligation that includes customers, vendors, promoters, investors, and others associated with the bank. The duty is to protect sensitive information from being disclosed, especially to competitors through unfair practices.

May/June 2010

10. Which of the following statements about bribery in the context of banking is correct?
(A) Both taking and giving bribes are considered unlawful and are punishable.
(B) Only the act of taking a bribe is considered an unlawful activity.
(C) Bribery is limited to cash payments and does not include gifts.
(D) Bribery is only a concern during credit appraisal and not in loan recovery.

Ans :

(A) Both taking and giving bribes are considered unlawful and are punishable.
The chapter clearly states that bribes refer to paying money or giving a gift to get a favour done. It explicitly mentions that both taking and giving bribes amount to an unlawful activity and are punishable. This principle applies across various banking operations where an element of bribery might appear, making it a serious offence.

Oct/Nov 2019

11. Read the following excerpt: "Bank employees conduct various operations of credit appraisals, loan disbursements, monitoring, recovery, marketing of bank products and services where element of bribery may appear. Similarly, bank employees deal with many agencies for official purposes, any act of getting favorable treatment in such transactions by offering bribes to the concerned officials is an offence related to bribery." Based on this, what can be inferred about the scope of bribery?
(A) Bribery is an internal issue and does not involve external agencies.
(B) Marketing of bank products is exempt from the risk of bribery.
(C) Bribery is only an offence when dealing with government officials, not private agencies.
(D) The risk of bribery is present in both customer-facing and inter-agency transactions.

Ans :

(D) The risk of bribery is present in both customer-facing and inter-agency transactions.
The excerpt highlights that the element of bribery can appear in various banking operations involving customers (like appraisals and recovery) and also when employees deal with "many agencies for official purposes." This indicates that the risk is widespread, covering both internal processes involving clients and external dealings with other entities for official work.

May/June 2021

12. When a bank outsources its functions to a third party, what is essential to ensure the third party does not cause inconvenience to the customer?
(A) Providing the third party with access to all of the bank's proprietary data
(B) Having clear, transparent contracts with minutely defined Service Level Agreements (SLAs)
(C) Minimizing the terms and conditions in contracts to allow for operational flexibility
(D) Ensuring the third party offers services at a lower cost than the bank

Ans :

(B) Having clear, transparent contracts with minutely defined Service Level Agreements (SLAs)
The text emphasizes that when outsourcing, banks must have clear and transparent contracts. Specifically for service contracts, it is crucial that the Service Level Agreements (SLAs) are defined in minute detail. This is to ensure that the third party's actions are governed by strict standards and do not result in any inconvenience for the end customer.

Oct/Nov 2008

13. Which of the following represents the core principle of a bank's ethical obligation to third parties when outsourcing services?
(A) Maximizing the bank's profitability through cost-effective outsourcing partners

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benefit from actions or decisions made in their official capacity". This highlights the core ethical problem where personal gain can improperly influence professional duties and judgment, potentially harming the bank or its stakeholders.

May/June 2012

22. Which of the following is NOT mentioned as a potential area for conflict of interest in a bank?
(A) Between a bank and its client/clients
(B) Between the bank and its regulator
(C) Among the employees of a bank
(D) Between an employee of a bank and a client

Ans :

(B) Between the bank and its regulator
The text lists several potential conflicts of interest, including those between a bank and its clients, among employees, between an employee and a client, and in the provision of services to two or more clients. A conflict between the bank and its regulator, while a possible scenario in a broader sense, is not listed in this specific context.

Oct/Nov 2018

23. Which of the following are recommended options for dealing with conflicts of interest within a bank?
Statement I: Identifying and preventing such conflicts.
Statement II: Keeping the conflict confidential to avoid market panic.
Statement III: Setting up institutional controls and mechanisms for handling them.
Statement IV: Making full disclosures to the affected parties.
(A) I and II only
(B) I, III, and IV only
(C) II and IV only
(D) All I, II, III, and IV

Ans :

(B) I, III, and IV only
The chapter outlines three primary options for managing conflicts of interest. These are: identifying and preventing them, establishing institutional controls and mechanisms to handle them based on risk, and ensuring full disclosure to all affected parties. Keeping the conflict confidential is contrary to the principle of disclosure and transparency recommended for resolution.

May/June 2023

24. A relationship manager at a bank is responsible for advising a high-net-worth client on investments. The manager strongly recommends investing in a particular company in which the manager's spouse is a major shareholder. The manager does not disclose this relationship to the client. This situation is a clear example of:
(A) A Conflict of Interest
(B) Insider Trading
(C) Job Discrimination
(D) A violation of proprietary data rules

Ans :

(A) A Conflict of Interest
This scenario perfectly illustrates a conflict of interest. The relationship manager is in an official capacity to provide impartial advice but has a personal financial interest in the client's decision. By not disclosing this connection, the manager's advice is compromised, and they are in a position to derive personal benefit from their official action.

Oct/Nov 2006

25. What is the primary purpose of top management taking pre-emptive measures against conflicts of interest?
(A) To increase the bank's profitability by taking calculated risks
(B) To eliminate all interactions between employees and clients
(C) To ensure such conflicts do not result in inappropriate or adverse consequences
(D) To report all employees involved in conflicts to the regulatory authorities

Ans :

(C) To ensure such conflicts do not result in inappropriate or adverse consequences
The text states that it is expected of top management to take "definite pre-emptive measures so that they do not result in inappropriate or adverse consequences on the banks and some or all stakeholders." This proactive approach is aimed at mitigating the potential damage that unresolved conflicts of interest can cause to the institution and its stakeholders.

May/June 2016

26. In addition to statutory disclosure requirements, banks must comply with various Accounting Standards notified under which rules?

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May/June 2015

18. Consider the following statement: "A woman employee should not have grounds to believe that she is disadvantaged in connection with her employment. ... It is discriminatory for instance when the woman has reasonable grounds to believe that her objection would disadvantage her in connection with her employment or work including recruiting or promotion or when it creates a hostile work environment." What does this imply?

(A) An employee's reasonable belief of being disadvantaged is a key element of discrimination.
(B) Discrimination only occurs if a promotion is explicitly denied.
(C) A hostile work environment is unrelated to sexual harassment.
(D) Objections to unwelcome conduct rarely lead to disadvantages in employment.

Ans :

(A) An employee's reasonable belief of being disadvantaged is a key element of discrimination. The excerpt highlights that the woman's "reasonable grounds to believe" that her objection to certain conduct would lead to a disadvantage is a critical factor. This shifts the focus from a proven outcome to the creation of a coercive or hostile situation where an employee feels their career is at risk for objecting.

Oct/Nov 2021

19. According to the guidelines, banks need to ensure appropriate work conditions are provided to prevent a hostile environment towards women. Which aspects are mentioned in this regard?

(A) Only compensation and promotion policies
(B) Only IT infrastructure and office layout
(C) Work, leisure, health, and hygiene
(D) Only official travel and reimbursement policies

Ans :

(C) Work, leisure, health, and hygiene
The text states that "Banks need to ensure that appropriate work conditions are provided in respect of work, leisure, health and hygiene, and there is no hostile environment towards women at work places." This indicates a holistic approach to creating a safe and supportive environment, covering various aspects of an employee's well-being at work.

May/June 2008

20. Match List-I with List-II regarding the components of sexual harassment.

List-I (Behaviour)
P. Physical contact
Q. Sexually coloured remarks
R. Demand for sexual favours
S. Showing pornography

List-II (Category)
1. Verbal conduct
2. Visual conduct
3. Physical conduct
4. Quid pro quo harassment element

(A) P-3, Q-1, R-4, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-4, R-1, S-2
(D) P-2, Q-1, R-4, S-3

Ans :

(A) P-3, Q-1, R-4, S-2
Based on the text, 'Physical contact' is a physical act (3). 'Sexually coloured remarks' are verbal (1). 'A demand or request for sexual favours' is a classic element of quid pro quo harassment (4). 'Showing pornography' is a form of visual harassment (2). This matching correctly categorizes the examples provided in the chapter.

Oct/Nov 2011

21. What is the dictionary meaning of "conflict of interest" as provided in the chapter?

(A) A professional disagreement between two employees over a work-related task or project
(B) A situation where a bank's stated business interests clash with mandatory regulatory requirements
(C) A situation where a person can derive personal benefit from decisions made in an official capacity
(D) A scenario of direct competition between two or more banks for the same valuable client account

Ans :

(C) A situation where a person can derive personal benefit from decisions made in an official capacity
The chapter provides a precise dictionary definition of conflict of interest: "a situation in which a person is in a position to derive personal

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personal financial gain, which is a direct violation of the expected ethical conduct and the bank's Code of Conduct, which employees are required to follow.

Oct/Nov 2005

5. What is the definition of insider trading in the context of a banking employee?
(A) Trading stocks of any company after obtaining information from public news channels
(B) Informing the bank on a quarterly basis about all personal stock market transactions
(C) Trading based on internal, non-public information about a client or the bank itself
(D) Advising friends to invest in the bank's stock due to its positive public performance

Ans :

(C) Trading based on internal, non-public information about a client or the bank itself
Insider trading is defined as an employee trading based on internal information of a client that is not available to the public. The text also includes dealing in the bank's own stock based on significant non-public information. This act leverages privileged information for personal or third-party gain, which is an unethical abuse of position.

May/June 2024

6. Which regulatory body in India has issued specific rules concerning insider trading, including provisions for consequences of violations?
(A) Reserve Bank of India (RBI)
(B) Securities and Exchange Board of India (SEBI)
(C) Institute of Chartered Accountants of India (ICAI)
(D) Indian Banks' Association (IBA)

Ans :

(B) Securities and Exchange Board of India (SEBI)
The text explicitly states that SEBI has issued insider trading rules. These regulations include provisions regarding the consequences for violating the rules and require employees to make declarations on a quarterly basis. SEBI is the primary market regulator in India, and its rules are designed to prevent such unfair and unethical practices.

Oct/Nov 2025

7. An officer in a bank's credit department learns that a large corporate client's account is about to be classified as a Non-Performing Asset (NPA), a fact not yet officially announced. Before the announcement, the officer advises a close friend to sell all their shares in that company. What unethical act has the officer committed?
(A) Bribery
(B) Conflict of Interest
(C) Misuse of Proprietary Data
(D) Insider Trading

Ans :

(D) Insider Trading
This scenario is a direct example of insider trading as described in the chapter. The officer used confidential, internal information about a client's financial health, which was not available to the public, to advise a third party to act and avoid a loss. This constitutes an abuse of their official position for personal gain.

May/June 2007

8. What does "proprietary data" refer to in a banking context?
(A) Information related to intellectual property rights and trade secrets of the bank
(B) Publicly available financial reports and annual statements of the bank
(C) General information about banking products and services shared with all customers
(D) Customer feedback and suggestions collected through public surveys

Ans :

(A) Information related to intellectual property rights and trade secrets of the bank
Proprietary data is defined as information concerning the intellectual property rights and trade secrets of a company. For a bank, this includes key strategies and other sensitive data. Employees are expected to maintain strict confidentiality and are prohibited from revealing such information to competitors or other external parties through any unfair means.

Oct/Nov 2013

9. An employee's ethical obligation regarding proprietary data extends to maintaining confidentiality with respect to which of the following groups?
(A) Only the bank's promoters and investors

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(A) The Companies (Accounting Standards) Rules, 2021
(B) The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
(C) The Banking Regulation Act, 1949
(D) The RBI Master Circular on Disclosures, 2020

Ans :

(A) The Companies (Accounting Standards) Rules, 2021
The chapter explicitly mentions that in addition to other instructions, "Banks also have to comply with various Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021." This highlights the legal framework that governs the accounting and disclosure practices that banks must adhere to for ensuring fairness and transparency in their financial reporting.

Oct/Nov 2016

27. According to RBI Guidelines on minimum disclosures, where should these items be disclosed in the financial statements?
(A) In the Chairman's annual message
(B) As a separate annexure to the balance sheet
(C) Within the main body of the Profit and Loss Account
(D) In the 'Notes to Accounts'

Ans :

(D) In the 'Notes to Accounts'
The text specifies that "At a minimum, the items listed in the RBI Guidelines should be disclosed in the 'Notes to Accounts'." This section of the financial statements is designated for providing detailed explanations and supplementary information that is essential for a comprehensive understanding of the bank's financial position and performance.

May/June 2020

28. What information are banks required to disclose for comparative purposes, according to the section on Minimum Disclosures?
(A) Financial information of the top three competitors
(B) Financial information of the previous period
(C) Projected financial information for the next fiscal year
(D) Only non-financial performance indicators of the previous period

Ans :

(B) Financial information of the previous period
The chapter states, "Banks shall disclose comparative financial information of the previous period, and also for narrative and descriptive information." This requirement for presenting prior-period data alongside current data allows stakeholders to analyze trends, assess performance over time, and gain a better understanding of the bank's financial trajectory and stability.

Oct/Nov 2010

29. An excerpt reads: "In order to encourage market discipline, RBI has developed a set of disclosure requirements which allow the market participants to assess key pieces of information on capital adequacy, risk exposures, risk assessment processes and key business parameters which provide a consistent and understandable disclosure framework that enhances comparability." What is the primary objective of these RBI disclosure requirements?
(A) To penalize banks with high-risk exposures
(B) To simplify the risk assessment process for the banks themselves
(C) To promote market discipline by enhancing transparency and comparability
(D) To replace the disclosure requirements under the Companies Act

Ans :

(C) To promote market discipline by enhancing transparency and comparability
The excerpt explicitly states that the RBI's disclosure requirements were developed "in order to encourage market discipline." It achieves this by allowing market participants to assess key information like capital and risk within a "consistent and understandable disclosure framework that enhances comparability," thereby fostering transparency and informed market behavior.

May/June 2009

30. Where should a bank disclose its various accounting policies regarding key areas of operations?
(A) Separately within an internal circular distributed to employees only
(B) Prominently on the homepage of its main corporate website

(D) It automates the process of performance appraisal.

Ans :

(B) It helps employees work fearlessly and report concerns.
The chapter states that "A well laid down process of representation of any concern or whistle blower policy helps employees to work fearlessly." Such policies provide a secure channel for employees to raise ethical concerns or report misconduct without fear of retaliation, contributing to a more transparent and accountable work environment.

Oct/Nov 2015

39. An ethical work environment has what effect on employees?
(A) It decreases their sense of responsibility.
(B) It encourages them to focus only on their individual targets.
(C) It leads to increased conflicts with management.
(D) It makes them more motivated and confident in their duties.

Ans :

(D) It makes them more motivated and confident in their duties.
The text directly links an ethical work environment to employee morale and performance. It states that a "Work environment that is based on ethical principles makes employees more motivated and confident in delivering their duties and responsibilities." This fosters a positive culture where employees feel secure and empowered to perform their roles effectively.

May/June 2014

40. How does the ethical culture from senior leadership typically spread throughout a bank?
(A) It percolates down from the top leadership
(B) Through mandatory annual online training modules
(C) Through strict enforcement of penalties for minor infractions
(D) It emerges organically from junior employees

Ans :

(A) It percolates down from the top leadership
The chapter clearly states, "The ethical culture from the senior leadership percolates down in the bank." This top-down flow implies that the values, words, and actions of senior managers are the primary source of the ethical tone and culture for the entire organization. Their behavior sets the standard that others in the bank will follow.

Oct/Nov 2012

41. How do most employees form their opinion about the ethics of senior leaders?
(A) By personally meeting and conducting interviews with each individual senior leader
(B) By carefully reading and analyzing the bank's detailed annual financial statements
(C) Based on what they come to know through others or when they listen to the leaders
(D) Through the messaging in the bank's external advertisements and public marketing campaigns

Ans :

(C) Based on what they come to know through others or when they listen to the leaders
The text acknowledges that most employees do not personally know senior leaders. Therefore, "They form their opinions based on what they come to know through others or when they listen to the top leaders." This highlights the importance of consistent communication and the reputation that leaders build through their words and the actions others observe.

May/June 2006

42. An excerpt states: "If senior managers talk about ethics regularly and also walk their talk without exception, they will develop a reputation for their ethical leadership. Leading by example, they shall become role models for others." What is the key to a senior manager becoming an ethical role model?
(A) Consistently aligning their actions with their words about ethics.
(B) Talking about ethics occasionally during annual meetings.
(C) Delegating all ethical communication to the HR department.
(D) Focusing only on actions and not on communicating about ethics.

Ans :

(A) Consistently aligning their actions with their words about ethics.
The excerpt emphasizes the concept of "walk their talk without exception." This means that for leadership to be perceived as ethical and for managers to become role models, their actions

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The chapter defines Human Resource Management as a discipline that "refers to designing and managing formal systems to optimally utilise the people as human resources." This definition emphasizes a systematic and strategic approach to managing the workforce to achieve the best possible outcomes for the organization through its employees' contributions and engagement.

Oct/Nov 2024

35. According to the principles of HRM Ethics, what is the likely consequence if employees are not satisfied with their work conditions and compensation?

(A) A measurable increase in overall employee engagement and daily motivation levels

(B) An automatic and direct improvement in the bank's corporate governance and ethical standards

(C) A compromise of customer satisfaction, which in turn affects the bank's business

(D) A significant decrease in the rate of migration of talented employees to competitor banks

Ans :

(C) A compromise of customer satisfaction, which in turn affects the bank's business

The text establishes a clear link between employee satisfaction and business outcomes. It states that if employees are not fully motivated due to dissatisfaction with work conditions, compensation, etc., "This leads to a compromise of customer satisfaction, which would in turn affects the business for banks." This highlights the critical business case for ethical HRM.

May/June 2018

36. Assertion (A): The retention of young, qualified talent in a bank depends solely on the compensation package offered.

Reason (R): Factors such as work environment, ethics, governance, and scope to enhance knowledge also play a crucial role in retaining talent.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).

(C) (A) is true but (R) is false.

(D) (A) is false but (R) is true.

Ans :

(D) (A) is false but (R) is true.

The assertion (A) is false because the text explicitly states that retention of talent depends "not merely on the compensation." The reason (R) is true as it lists the other critical factors mentioned in the chapter, such as work environment, ethics, governance, and opportunities for knowledge enhancement, which are essential for nurturing and retaining talent.

NODIA

Oct/Nov 2023

37. A bank offers competitive salaries but experiences a high attrition rate among its young, talented employees. These employees often cite a stressful, high-pressure environment and a lack of transparency from management as reasons for leaving. Based on HRM ethics, what is the most likely issue?

(A) The bank's compensation package is not actually as competitive as it is perceived to be

(B) The bank's recruitment process is flawed, resulting in the hiring of employees who are not a good cultural fit

(C) The bank is failing to nurture talent through a positive work environment and good governance

(D) The bank's security protocols for proprietary data are not sufficiently robust to prevent leaks

Ans :

(C) The bank is failing to nurture talent through a positive work environment and good governance

The case points to issues beyond salary. The text on HRM ethics highlights that retaining talent depends on factors like work environment, ethics, and governance. A stressful, non-transparent atmosphere indicates a failure in these areas. This lack of nurturing talent, despite good pay, leads to its migration to competitors, as described in the chapter.

May/June 2017

38. What is the role of a well-laid-down process of representation or a whistle-blower policy in a bank?

(A) It helps management identify employees for promotions.

(B) It helps employees work fearlessly and report concerns.

(C) It is primarily used for customer complaint redressal.

(B) Ensuring the outsourced partner adheres to the bank's internal marketing strategies
(C) Protecting the end customer from any negative impact or inconvenience
(D) Transferring all legal and operational risks to the third-party vendor

Ans :

(C) Protecting the end customer from any negative impact or inconvenience
The primary ethical obligation discussed in the section on third parties is customer protection. The text stresses the need for clear contracts and detailed Service Level Agreements (SLAs) specifically to "ensure that the third party does not cause any inconvenience to the customer." This places the customer's experience and rights at the center of the outsourcing relationship.

May/June 2013

14. Job discrimination is defined as differentiating between employees based on which of the following grounds?
(A) Performance, skills, and qualifications
(B) Seniority and years of service in the bank
(C) Educational background and professional certifications
(D) Religion, caste, sex, or race

Ans :

(D) Religion, caste, sex, or race
The chapter defines job discrimination as the act of differentiating employees based on factors like religion, caste, sex, or race. This form of discrimination is considered unethical and is against laid-down rules and regulations. It can occur at any stage of employment, from hiring to promotions, and affects interpersonal behaviors within the organization.

Oct/Nov 2017

15. According to the text, discrimination in the workplace can be observed in which of the following areas?
Statement I: Entry into the job
Statement II: Working conditions and emoluments
Statement III: Promotions
(A) Only Statement I
(B) Only Statements I and II
(C) Only Statements II and III
(D) Statements I, II, and III

Ans :

(D) Statements I, II, and III
The text states that instances of discrimination can be observed "Right from the entry into the job, working conditions, emoluments and promotions." This indicates that unethical discriminatory practices can affect an employee throughout their entire employment lifecycle. Ensuring proper HR practices is crucial to prevent discrimination in all these areas and foster fair interpersonal behaviors.

May/June 2005

16. In which year did the RBI advise all commercial banks to implement the Supreme Court's guidelines on sexual harassment?
(A) February 2002
(B) February 1998
(C) February 2013
(D) February 1996

Ans :

(B) February 1998
The text explicitly mentions that "in February 1998 the RBI advised all commercial banks to implement the Guidelines given by the Hon'ble Supreme Court of India titled Sexual Harassment in Work Places". This directive was a significant step towards institutionalizing mechanisms for handling sexual harassment cases within the Indian banking sector.

Oct/Nov 2009

17. Which of the following is NOT listed as a form of unwelcome sexually determined behaviour?
(A) A demand or request for sexual favours
(B) Providing constructive feedback on job performance in private
(C) Showing pornography
(D) Physical contact

Ans :

(B) Providing constructive feedback on job performance in private
The chapter provides a specific list of behaviours that constitute sexual harassment. These include physical contact, a demand for sexual favours, sexually coloured remarks, showing pornography, and other unwelcome conduct of a sexual nature. Providing professional, constructive feedback on performance, even if in private, is a standard managerial duty and is not on this list.

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must consistently and unfailingly match their stated ethical principles. Simply talking about ethics is insufficient; authentic, demonstrated behavior is what builds a reputation for ethical leadership.

Oct/Nov 2009

43. What is the ultimate outcome when senior leaders successfully act as ethical role models?
(A) Employees will demand higher compensation for ethical behavior.
(B) The bank will eliminate the need for a formal Code of Conduct.
(C) Senior leaders will no longer need to discuss ethics.
(D) Employees, in turn, will practice ethics and become ethics ambassadors.

Ans :

(D) Employees, in turn, will practice ethics and become ethics ambassadors.
The chapter describes a cascading effect. When senior leaders lead by example, they become role models. The text concludes that as a result, "The employees, in turn, will also practice ethics in letter & spirit and turn into ethics ambassadors in their own ways." This creates a self-reinforcing culture of ethics throughout the organization.

May/June 2011

44. Consider the following statements about ethical leadership:
Statement I: Employees' perception of leadership's ethics is primarily formed through direct, personal interactions.
Statement II: Senior leadership should convey the importance of ethics in a variety of ways to reach every employee.
Which of the statements is/are correct?
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Neither Statement I nor Statement II is correct.

Ans :

(B) Only Statement II is correct.
Statement I is incorrect because the text says employees do not personally know senior leaders and form opinions through others. Statement II is correct as the text advises that "the senior leadership should convey the importance of ethics in a variety of ways and in such a manner as to reach to every employee."

Oct/Nov 2014

45. Assertion (A): An ethical culture in a bank is established from the bottom up, starting with junior employees.
Reason (R): The ethical culture from the senior leadership percolates down in the bank, and they become role models by leading by example.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(D) (A) is false but (R) is true.
The assertion (A) is false. The text clearly indicates that the ethical culture is a top-down process, stating it "percolates down" from senior leadership. The reason (R) is true, as it accurately describes this top-down mechanism where senior leaders act as role models, which is the core message of the section on ethical leadership.

May/June 2019

46. Which of the following is NOT an example of abuse of official position for personal gain?
(A) Claiming reimbursement for personal travel as an official trip
(B) Using the office printer and paper for a child's school project
(C) Making false claims for allowances beyond the entitled perquisites
(D) Following the bank's Code of Conduct diligently in all transactions

Ans :

(D) Following the bank's Code of Conduct diligently in all transactions
Abusing an official position involves using one's role for personal or unauthorized benefits. Claiming false expenses, using office resources for personal use, and making false claims are all examples of such abuse. In contrast, diligently following the Code of Conduct is the definition of ethical behavior and the opposite of abusing one's position.

NODIA

Oct/Nov 2005

47. Which of the following statements correctly pairs an unethical act with its description?
(A) Conflict of Interest - A situation to derive personal benefit from official decisions.
(B) Bribes - Differentiating employees based on religion or race.
(C) Job Discrimination - Trading stocks based on non-public information.
(D) Insider Trading - Paying money or a gift to get some favour done.

Ans :

(A) Conflict of Interest - A situation to derive personal benefit from official decisions.
The chosen option correctly matches the term with its definition provided in the chapter. The other options are incorrectly paired. Bribes involve payments for favours, job discrimination involves biased treatment of employees, and insider trading is about using non-public information for stock trading.

May/June 2024

48. Identify the incorrect statement regarding a bank's responsibilities in preventing sexual harassment.
(A) Banks should set up a mechanism to deal with complaints of sexual harassment.
(B) Banks are only required to address complaints of physical contact, not verbal remarks.
(C) The conduct rules for employees should include provisions for penalties against offenders.
(D) Banks should ensure there is no hostile environment towards women at work.

Ans :

(B) Banks are only required to address complaints of physical contact, not verbal remarks.
This statement is incorrect. The text explicitly defines sexual harassment to include a wide range of behaviours, such as "Sexually coloured remarks" and "any other unwelcome physical, verbal or non-verbal conduct of sexual nature." Therefore, a bank's responsibility is not limited to physical acts but covers verbal and other forms of harassment as well.

Oct/Nov 2025

49. Which of the following is a key requirement for contracts when a bank outsources its functions to third parties?
(A) They must be flexible and non-specific to allow for changing market conditions.
(B) They must include clear, transparent terms and minutely defined SLAs.
(C) They must prioritize cost-saving for the bank above all other considerations.
(D) They must be kept confidential from the end customer.

Ans :

(B) They must include clear, transparent terms and minutely defined SLAs.
The chapter stresses the importance of robust contractual agreements in outsourcing. It specifies that banks need to have "clear, transparent contracts and agreements with all terms & conditions incorporated." It particularly highlights that Service Level Agreements (SLAs) must be "defined minutely" to protect the customer from inconvenience, making this the key requirement.

May/June 2007

50. According to the chapter, which factors, apart from compensation, are crucial for retaining young and qualified talent?
(A) Work environment, ethics, governance, and scope to enhance knowledge
(B) The bank's brand image and marketing budget
(C) The number of branches and ATM networks of the bank
(D) The age and seniority of the top management team

Ans :

(A) Work environment, ethics, governance, and scope to enhance knowledge
The section on HRM Ethics explicitly states that retaining young talent depends not merely on compensation but also on "work environment, ethics, governance, scope to enhance knowledge, etc." A failure to nurture talent through these aspects can lead to employees migrating to competitors, highlighting their importance in modern human resource management.

Oct/Nov 2013

51. The disclosure requirements developed by the RBI for market discipline are intended to enhance which of the following?
(A) The effectiveness and scope of the bank's internal audit procedures

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(B) The overall complexity and length of the annual financial statements
(C) Consistency and comparability of information for market participants
(D) The short-term profitability of the bank's global treasury operations

Ans :

(C) Consistency and comparability of information for market participants
The text states that the RBI's disclosure framework is designed to be "consistent and understandable" and that it "enhances comparability." This allows market participants to assess key information like capital adequacy and risk exposures across different banks on a like-for-like basis, which in turn encourages market discipline through enhanced transparency.

May/June 2010

52. What does the term "walk their talk" signify in the context of ethical leadership by senior managers?
(A) It means managers should physically walk around the office to talk to employees.
(B) It means managers should only talk about ethics and delegate the implementation.
(C) It means managers should only act ethically and not speak about it.
(D) It means managers' actions should be consistent with their ethical statements.

Ans :

(D) It means managers' actions should be consistent with their ethical statements.
The phrase "walk their talk" is a well-known idiom for acting in a way that aligns with one's stated beliefs or principles. In the context of the chapter, it means senior managers must not only speak about ethics but also demonstrate ethical behavior in their own actions, thereby leading by example and building credibility.

Oct/Nov 2019

53. Match List-I (Concept) with List-II (Primary Focus).
List-I (Concept)
P. Insider Trading
Q. Proprietary Data
R. Service Level Agreement (SLA)
S. HRM Ethics
List-II (Primary Focus)
1. Confidentiality of trade secrets
2. Optimal utilisation of human resources
3. Use of non-public information
4. Performance standards in outsourcing
(A) P-1, Q-3, R-2, S-4
(B) P-3, Q-1, R-4, S-2
(C) P-2, Q-4, R-1, S-3
(D) P-3, Q-2, R-4, S-1

Ans :

(B) P-3, Q-1, R-4, S-2
Insider Trading (P) is about the use of non-public information (3). Proprietary Data (Q) concerns the confidentiality of intellectual property and trade secrets (1). A Service Level Agreement (R) defines performance standards in an outsourcing contract (4). HRM Ethics (S) focuses on the optimal and fair utilisation of human resources (2).

NODIA

May/June 2021

54. Consider the following statements related to ethical dimensions for employees.
Statement I: Taking a bribe is an offence, but giving a bribe to an official for bank work is not.
Statement II: A bank must provide appropriate work conditions concerning work, leisure, health, and hygiene to prevent a hostile environment for women.
Which of the statements is/are correct?
(A) Only Statement I is correct.
(B) Only Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Neither Statement I nor Statement II is correct.

Ans :

(B) Only Statement II is correct.
Statement I is incorrect because the text clearly states that "Taking or giving bribes both amount to unlawful activity and is punishable." Statement II is correct, as the chapter explicitly lists that banks need to ensure appropriate conditions in respect of "work, leisure, health and hygiene" to prevent a hostile work environment.

Oct/Nov 2008

55. Which of the following combination of statements about fair accounting practices is correct?
1. Banks must comply with Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021.
2. Banks are prohibited from making more comprehensive disclosures than the

(B) Discuss the matter openly in the office to solicit opinions and support from other colleagues
(C) Debate the issue publicly in the presence of outsiders to ensure complete transparency in the process
(D) Send a formal email detailing the entire grievance to the human resources department immediately for intervention

Ans :

(A) Deal with the matter in private, potentially with the help of a senior colleague for mediation if required
The chapter advises that differences or disputes with colleagues should not be debated in public, especially in the presence of outsiders. The ethical way to handle such situations is to deal with them in private. If the issue cannot be resolved between the individuals, seeking the assistance of a senior colleague is recommended to mediate.

Oct/Nov 2009

9. Under what circumstance is it considered unethical for an employee to follow an instruction from a superior officer?
(A) When the instruction requires the employee to work beyond their standard office hours without prior notice
(B) When the instruction is for a task that falls significantly outside the employee's official job description
(C) When the instruction violates a law or regulation, or would be demonstrably harmful to a customer
(D) When the instruction is exceptionally difficult and the employee feels they lack the necessary skills to execute it properly

Ans :

(C) When the instruction violates a law or regulation, or would be demonstrably harmful to a customer
While executing the lawful instructions of a superior is considered ethical, the chapter draws a clear line. It is deemed unethical to act upon instructions from a superior that are violative of any law or regulation. Similarly, following an order that would be harmful to a customer or to society is also an unethical act.

May/June 2016

10. Which of the following is identified as a key indicator of an ethical workplace?
(A) Employees' awareness of business processes and providing quick, clear answers to queries
(B) A strong focus on individual performance metrics and sales targets
(C) A flexible policy on employees meeting customers outside the workplace for business discussions
(D) A highly competitive environment where employees are ranked publicly based on performance

Ans :

(A) Employees' awareness of business processes and providing quick, clear answers to queries
One of the primary indicators of an ethical workplace is the employees' awareness of the organization's business processes. This knowledge enables them to provide quick, to-the-point, and clear answers to customer queries, which reflects a culture of competence, transparency, and commitment to service, all of which are hallmarks of an ethical environment.

Oct/Nov 2018

11. Which of the following statements does NOT represent an indicator of an ethical workplace?
(A) Confining conversations to work-related talks and avoiding other matters
(B) Fair and appropriate treatment given to co-employees
(C) Giving correct and authentic information to customers on the bank's products
(D) Expecting or accepting gifts and favours from customers, regardless of the amount

Ans :

(D) Expecting or accepting gifts and favours from customers, regardless of the amount
An ethical workplace is characterized by a clear boundary against personal gains from professional relationships. The text explicitly lists "No expectations or acceptance of gifts/favours (irrespective of the amount)" as an indicator of an ethical environment. Therefore, any acceptance of such inducements from customers would be a sign of an unethical practice, not an ethical one.

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This pair is incorrect. The chapter defines job discrimination as differentiating employees based on religion, caste, sex, or race, not performance. Differentiating based on performance is a legitimate and necessary part of performance management and is not considered unethical discrimination. The other pairs correctly match the term with its description from the text.

May/June 2012

60. The chapter on "Ethical Dimensions: Employees" primarily emphasizes that ethical conduct is the responsibility of:

(A) Only the non-managerial employees at the bottom of the organizational pyramid

(B) All individuals within the organization, driven by a top-down culture

(C) Only the senior leadership team and the top management of the bank

(D) The HR department and the designated compliance officers exclusively

Ans :

(B) All individuals within the organization, driven by a top-down culture

The chapter covers a wide range of ethical issues, from the obligations of individual employees (not abusing position) to the critical role of senior leadership in setting the tone ("percolates down"). It discusses institutional responsibilities (HRM ethics, accounting practices), implying that ethical conduct is a shared responsibility across all levels, fostered by strong, ethical leadership.

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(A) Non-availability of Code of Ethics Manual
(B) Unrealistic Targets
(C) Influence of Co-employees
(D) Means are not appreciated

Ans :

(B) Unrealistic Targets
The chapter explicitly identifies "Unrealistic Targets" as a major cause of unethical behaviour. Due to intense competition, employees may be pressurized to meet these targets. This pressure can compel them to take shortcuts, such as falsifying reports or claiming uncompleted work, to create an appearance of achievement that is not grounded in reality.

Oct/Nov 2016

17. The behaviour of new recruits in an organization can be negatively affected when they observe their superiors or colleagues engaging in corrupt or unethical practices, such as focusing on personal work during office hours. This phenomenon is described as:
(A) Lack of fear of Action
(B) Influence of Co-employees
(C) Unprincipled Leadership
(D) Unquestioned job security

Ans :

(B) Influence of Co-employees
This situation exemplifies the "Influence of Co-employees." The text explains that in some departments or organizations, a few employees may engage in unethical behaviour. This conduct has a direct bearing on new recruits, who learn and often adopt these negative practices from their more experienced superiors or colleagues, perpetuating an unethical culture.

May/June 2014

18. Which of the following is proposed as a remedy for unethical behaviour in the workplace?
(A) Nipping of unethical behaviour in the bud
(B) Increasing the pressure to meet competitive targets
(C) Discouraging counter viewpoints in meetings to ensure quick decisions
(D) Focusing on results rather than the organization's reputation

Ans :

(A) Nipping of unethical behaviour in the bud
Among the remedies listed for unethical behaviour is "Nipping of unethical behaviour in the bud." This proactive approach involves addressing minor ethical infractions promptly before they can escalate into more serious problems or become ingrained in the workplace culture. It is a preventative measure aimed at maintaining high ethical standards throughout the organization.

Oct/Nov 2007

19. Which of the following is NOT considered a remedy for unethical behaviour within an organization?
(A) Developing a comprehensive Ethics Manual
(B) Appreciation and Rewards for ethical behaviour
(C) Encouraging a focus on achieving results over maintaining reputation
(D) Imitable behaviour by the Top Management

Ans :

(C) Encouraging a focus on achieving results over maintaining reputation
The chapter lists "Care for reputation rather than results" as a key remedy for unethical behaviour. This implies that prioritizing the organization's long-term reputation over short-term results is crucial for fostering an ethical culture. Encouraging a focus on results at the expense of reputation would likely exacerbate unethical conduct rather than remedy it.

May/June 2025

20. Consider the following statements regarding the causes of unethical behaviour:
I. The absence of a formal Code of Ethics manual can contribute to unethical actions.
II. When employees perceive that management does not take unethical conduct seriously, they may behave differently.
III. The behaviour of colleagues and superiors has no significant bearing on a new recruit's ethical choices.
Which of the above statements is/are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II and III

Ans :

(A) I and II only

NODIA

2. Revising personal goals like salary, assets, and promotion.
3. Expectations from relatives and friends due to one's position.
4. Addressing international child trafficking and money laundering.

(A) P-2, Q-3, R-1, S-4
(B) P-1, Q-2, R-4, S-3
(C) P-2, Q-1, R-3, S-4
(D) P-3, Q-4, R-1, S-2

Ans :

(A) P-2, Q-3, R-1, S-4
The hierarchy is explained with specific examples. 'Self' relates to personal and professional achievements like salary and promotions. 'Community' involves social pressures and expectations from friends and relatives. 'Society' concerns larger national issues like poverty, while 'Global causes' pertains to international issues like money laundering and sustainable development, aligning the lists as described.

Oct/Nov 2014

5. A bank decides not to provide loans to industries that use outdated, polluting technologies. This decision aligns with which level of the 'Something Bigger Than the Self' hierarchy?
(A) Community
(B) Society
(C) Global Causes
(D) Religion

Ans :

(C) Global Causes
The chapter explicitly links the refusal to finance polluting industries to the level of 'Global Causes'. This level encompasses issues of global purview such as environmental problems and ensuring sustainable development. By implementing such a policy, the bank and its employees contribute to addressing these broad, international concerns, which go beyond national or community boundaries.

May/June 2019

6. What is the most accurate description of 'ethical behaviour' in a workplace context?
(A) Actions that strictly adhere to the employee's personal moral code, regardless of the wider organizational impact
(B) Actions that are appreciated by internal management and colleagues as well as by external stakeholders
(C) Actions that prioritize immediate customer satisfaction above all else, even if they violate established internal policies
(D) Actions that lead to the quickest completion of tasks and swift achievement of short-term performance targets

Ans :

(B) Actions that are appreciated by internal management and colleagues as well as by external stakeholders
Ethical behaviour is defined as actions that are warranted and appreciated not only by internal parties like management and colleagues but also by external stakeholders. It involves an employee realizing whether their actions augur well for the organization as a whole, indicating a broad sense of responsibility beyond personal or team-specific interests.

Oct/Nov 2006

7. How should a bank employee ethically behave when interacting with a semi-literate customer who needs to fill out a form?
(A) Direct the customer to a separate counter designated for such assistance
(B) Advise the customer to bring a literate family member on their next visit
(C) Explain that staff are not permitted to assist with form filling to avoid errors
(D) Provide the necessary help to the customer in filling up the form

Ans :

(D) Provide the necessary help to the customer in filling up the form
An acceptable ethical behaviour includes shaping one's service delivery to accommodate all types of customers. The text explicitly states that customers who are semi-literate or illiterate and require help in filling up a form should be helped by the staff. This demonstrates a commitment to inclusive customer service and is a part of ethical conduct.

May/June 2021

8. If an employee has a difference of opinion or a dispute with a colleague, what is the ethically appropriate course of action?
(A) Deal with the matter in private, potentially with the help of a senior colleague for mediation if required

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CHAPTER 54

Work Ethics and The Workplace

Oct/Nov 2010

1. According to the principles of work ethics, how can an employee's ethical standards be primarily understood and analysed?

(A) By reviewing their academic qualifications and previous employment records

(B) By observing their engagement with the organization, interaction with colleagues, and communication with stakeholders

(C) By assessing their speed in completing assigned tasks and their punctuality

(D) By measuring their contribution to the company's profitability and market share

Ans :

(B) By observing their engagement with the organization, interaction with colleagues, and communication with stakeholders

An employee's work ethics are understood by observing and analysing factors like their feelings about the job, their engagement with the organization, how they interact with subordinates and superiors, how they value tasks, and their communication style with external stakeholders. These behavioural aspects provide a clearer picture of their ethical commitment than performance metrics alone.

May/June 2023

2. Which of the following behaviours is characteristic of an employee considered to have a low level of work ethic?

(A) An employee who is detached and plans to move to another job for better pay or personal comfort

(B) An employee who actively seeks training and development opportunities for a long-term career in the organization

(C) An employee who volunteers for challenging assignments to actively contribute to the organization's strategic goals

(D) An employee who collaborates effectively with team members and provides mentorship and support to new recruits

Ans :

(A) An employee who is detached and plans to move to another job for better pay or personal comfort

Employees with a low work ethic are often described as being out-of-the-way or detached. They view their current role as a temporary stepping stone and are primarily motivated by personal gains like a better designation, higher pay, or more comfort, such as a shorter commute, rather than commitment to their current organization's objectives.

Oct/Nov 2025

3. In the hierarchy of purpose that human beings consider, which level is placed immediately after 'Community'?

(A) Family

(B) Society

(C) Religion

(D) Global causes

Ans :

(C) Religion

The chapter outlines a specific hierarchy in which individuals think about the purpose of their lives. The sequence is presented as Self, Family, Community, Religion, Society, and finally, Global causes. Therefore, the level that immediately follows 'Community' in this defined hierarchy is 'Religion', which involves service related to one's faith outside the workplace.

May/June 2012

4. Match the level in the hierarchy of 'Something Bigger Than the Self' (List-I) with its corresponding description (List-II).

List-I

P. Self

Q. Community

R. Society

S. Global Causes

List-II

1. Dealing with underprivileged members and rural poverty.

NODIA

May/June 2007

12. Consider the following statements about an ethical workplace:
Statement I: Employees frequently give direct or indirect hints to customers to meet them outside the workplace.
Statement II: The policies and decisions of the employer are parsed and defended by employees when necessary.
Which of the statements is/are correct indicators of an ethical workplace?
(A) Only Statement I
(B) Only Statement II
(C) Both Statement I and Statement II
(D) Neither Statement I nor Statement II

Ans :

(B) Only Statement II
Statement I describes an unethical practice, as an ethical workplace is one where there are "No direct or indirect hints to customers to meet the employees outside the workplace." Statement II, however, describes an ethical behavior where employees, when necessary, understand and defend the employer's policies, indicating loyalty and alignment with the organization's principles.

Oct/Nov 2010

13. Which of the following is NOT listed as a major cause for unethical behaviour at the workplace?
(A) Unprincipled Leadership
(B) Influence of Co-employees
(C) Rigorous and frequent ethical training programs
(D) Unrealistic Targets

Ans :

(C) Rigorous and frequent ethical training programs
The chapter identifies several causes of unethical behaviour, including unprincipled leadership, negative influence from co-employees, and pressure from unrealistic targets. Rigorous and frequent ethical training is, in contrast, a remedy or a preventative measure designed to reduce unethical behaviour, not a cause of it. Such programs aim to build a strong ethical foundation.

May/June 2005

14. An employee named B achieves a significantly higher sales target than employee A by using some unethical methods. If the organization applauds B and does not encourage A, what cause of unethical behaviour does this situation illustrate?
(A) Lack of fear of Action
(B) Influence of Co-employees
(C) Unprincipled Leadership
(D) Means are not appreciated

Ans :

(D) Means are not appreciated
This scenario directly illustrates the cause "Means are not appreciated." When the organization rewards employee B for achieving a high target through unethical methods while ignoring employee A's ethical approach, it sends a clear signal. The message is that the organization values the result (the "end") more than the ethical process (the "means") used to achieve it.

Oct/Nov 2022

15. Assertion (A): When top management leaders are reported by media or regulators for unethical involvement, it can lead to a loss of respect from middle and junior level employees.
Reason (R): The behaviour of top management serves as a powerful example, and their lack of principles can erode the ethical foundation of the entire organization.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
(C) (A) is true but (R) is false
(D) (A) is false but (R) is true

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
The assertion correctly states that negative reports about top management's ethics cause a loss of respect among lower-level employees. The reason explains why this happens: leadership behaviour sets the tone for the organization. This concept, termed "Unprincipled Leadership," directly links the actions of leaders to the ethical morale and conduct of their subordinates.

May/June 2018

16. The pressure to meet excessively high targets, whether external or self-created, can lead employees to resort to unethical shortcuts, such as claiming work that was never done. This behaviour is attributed to which cause of unethical conduct?

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minimum required by RBI.
3. Accounting Standard 18 deals with Related Party Disclosures.
4. Banks must disclose comparative financial information of the previous period.

(A) 1, 2, and 3
(B) 2, 3, and 4
(C) 1, 3, and 4
(D) 1, 2, and 4

Ans :

(C) 1, 3, and 4
Statement 1 is correct as per the text. Statement 2 is incorrect; the text says banks "may make more comprehensive disclosures." Statement 3 is correct, as AS 18 is explicitly mentioned for related party disclosures. Statement 4 is correct, as the text requires disclosure of "comparative financial information of the previous period."

May/June 2013

56. Which of the following is NOT a recommended measure for managing conflicts of interest?
(A) Ignoring the conflict until a formal complaint is lodged
(B) Setting up institutional controls and mechanisms
(C) Identifying and preventing such conflicts proactively
(D) Making full disclosures to the affected parties

Ans :

(A) Ignoring the conflict until a formal complaint is lodged
The text recommends a proactive approach to managing conflicts of interest. The options available include identifying and preventing them, setting up controls, and making full disclosures. Ignoring a conflict until a complaint is made is a reactive and unethical approach that goes against the principle of taking pre-emptive measures to avoid adverse consequences.

Oct/Nov 2017

57. According to the summary section of the chapter, which two accounting standards assume "special significance" in the context of disclosures?
(A) AS 1 and AS 2
(B) AS 9 and AS 10
(C) AS 18 and AS 19
(D) AS 18 and AS 22

Ans :

(C) AS 18 and AS 19
In the "Let Us Sum Up" section, the text states, "In this context, the disclosure of related party transactions as per AS 18 and AS 19 assumes special significance." While the chapter details AS 18, it is in this summary that AS 19 is also mentioned as being of special significance for disclosures.

May/June 2005

58. A bank has a well-defined whistle-blower policy. An employee notices their department head consistently using the official company car for personal weekend trips, a clear violation of the bank's code of conduct. The employee is hesitant to report this. The existence of a strong whistle-blower policy is intended to address this hesitation by:
(A) Allowing the employee to work fearlessly by providing a safe channel for reporting.
(B) Guaranteeing the employee a promotion for reporting the issue.
(C) Punishing the employee if they fail to report the misconduct.
(D) Ensuring the department head is immediately terminated without investigation.

Ans :

(A) Allowing the employee to work fearlessly by providing a safe channel for reporting.
The chapter states that a whistle-blower policy "helps employees to work fearlessly." The primary purpose of such a policy in this case is to give the employee the confidence to report the observed misconduct (abuse of official resources) without fear of retaliation from their department head, thereby upholding the bank's ethical standards.

Oct/Nov 2016

59. Identify the incorrect pair from the following options.
(A) Abuse of Official Position : Using official resources for personal use
(B) Proprietary Data : Confidential key strategies of the bank
(C) Bribe : A gift given to get some favour done
(D) Job Discrimination : Differentiating employees based on performance

Ans :

(D) Job Discrimination : Differentiating employees based on performance

NODIA

Statement I is correct, as the "Non-availability of Code of Ethics Manual" is a listed cause. Statement II is also correct, reflecting the "Lack of fear of Action." Statement III is incorrect because the "Influence of Co-employees" is explicitly mentioned as a significant factor that shapes the behaviour of new recruits within the organization.

Oct/Nov 2019

21. Match the cause of unethical behaviour (List-I) with its appropriate description (List-II).

List-I

P. Unrealistic Targets
Q. Unprincipled Leadership
R. Influence of Co-employees
S. Means are not appreciated

List-II

1. New recruits learn improper conduct from their superiors.
2. An employee is applauded for high sales achieved via wrong methods.
3. Employees take shortcuts by claiming work that was never done.
4. Junior employees lose respect when top management is investigated for misconduct.

(A) P-3, Q-4, R-1, S-2
(B) P-1, Q-2, R-3, S-4
(C) P-3, Q-1, R-4, S-2
(D) P-4, Q-3, R-2, S-1

Ans :

(A) P-3, Q-4, R-1, S-2
The descriptions correctly match the causes. Unrealistic Targets (P) lead to shortcuts like claiming undone work (3). Unprincipled Leadership (Q) causes loss of respect when leaders are involved in scandals (4). Influence of Co-employees (R) is when new recruits learn bad habits from others (1). Means not being appreciated (S) is when unethical results are rewarded (2).

May/June 2009

22. One of the common unethical practices found at the workplace involves the unauthorized sharing of sensitive company or client information. This practice is identified as:

(A) Abuse of the official email
(B) Data Leakage
(C) Pre-employment Tests
(D) Helping Friends in Social Decisions

Ans :

(B) Data Leakage
"Data Leakage" is explicitly listed as a common unethical practice found at the workplace. This refers to the unauthorized disclosure of confidential information, which can include internal company data, employee details, or customer information. Such breaches can have severe consequences for privacy, trust, and the organization's reputation, as illustrated in the provided case studies.

Oct/Nov 2011

23. Which of the following is NOT a remedy for unethical behaviours suggested in the chapter?

(A) Having conversations about ethics in the organization
(B) Frequent utilization of the Ethics Manual
(C) Encouragement of counter viewpoints and discussions in meetings
(D) Stricter pre-employment tests to screen out potentially unethical candidates

Ans :

(D) Stricter pre-employment tests to screen out potentially unethical candidates
The chapter lists several remedies, including developing an ethics manual, having conversations about ethics, and encouraging diverse viewpoints. However, "Pre-employment Tests" are discussed as a potential area of unethical practice itself, particularly concerning gender discrimination. They are not presented as a remedy for existing unethical behaviours within the organization's culture.

May/June 2010

24. A culture where management shows appreciation and gives rewards for ethical behaviour primarily serves to:

(A) Reinforce that the organization values integrity and principled conduct
(B) Increase competition among employees to report on each other
(C) Reduce the need for a formal Code of Ethics manual
(D) Ensure that all unrealistic targets are met on time

Ans :

(A) Reinforce that the organization values integrity and principled conduct

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from their assigned tasks and use office time for personal matters instead.

Oct/Nov 2008

33. The problem of some team members taking credit for others' work is often seen in organizations and serves to demotivate sincere employees. What is identified as the root cause of this issue?

(A) A lack of adequate financial compensation and rewards for team-based projects
(B) Inappropriate methods of mixing individual responsibilities with team work structures
(C) The presence of an excessive number of extroverted employees within a single team
(D) An over-reliance on automated technology for monitoring individual employee contributions

Ans :

(B) Inappropriate methods of mixing individual responsibilities with team work structures
The text explicitly states that "The root cause is inappropriate ways of mixing individual responsibilities with so-called team work." The problem arises when individual tasks are blended into team-based work in a way that makes it difficult to distinguish and appreciate individual contributions, allowing some to evade work while others carry the burden.

May/June 2006

34. Consider the following statements about the issue of 'Taking Credit for Others' Work':
Statement I: Employees who are introverted and come from rural backgrounds are often the ones who take credit for others' work.
Statement II: The responsibility to value work appropriately by appreciating and discounting claims lies with the top management.
Which of the statements is/are correct based on the text?

(A) Only Statement I
(B) Only Statement II
(C) Both Statement I and Statement II
(D) Neither Statement I nor Statement II

Ans :

(B) Only Statement II
Statement I is incorrect; the text describes introverted employees as often being the victims whose work is claimed by others. Statement II is correct, as the chapter concludes this section by stating, "It is the responsibility of the top management to factor in this aspect and value the work by appreciating and discounting the claims appropriately."

Oct/Nov 2017

35. Which characteristic is associated with employees who might unfairly take credit for work done by others in a team?

(A) Being introverted and having received education primarily in regional languages
(B) Lacking significant public-speaking skills and the ability to articulate ideas clearly
(C) Being extroverted, socially articulate, and clever in making rehearsed public statements
(D) Coming from an economically humble background with limited social connections

Ans :

(C) Being extroverted, socially articulate, and clever in making rehearsed public statements
The chapter contrasts two types of employees. Those who take credit are often described as having an extroverted, affluent, convent-educated background. They are socially articulate and clever, able to make "rehearsed statements that convince the manager." This allows them to claim credit for work they did not sincerely perform, at the expense of their quieter colleagues.

May/June 2008

36. What does the concept of "grade-wise segregation of unethical practices" imply for an organization?

(A) Treating all unethical acts, from wasting time to major fraud, with the exact same level of punishment
(B) Investigating only high-value financial frauds, while completely ignoring all other minor ethical issues
(C) Allowing the grade or seniority of the employee to determine whether a specific act is considered unethical
(D) Categorizing unethical practices by severity and ensuring the response is appropriate to the infraction's level

Ans :

(D) Categorizing unethical practices by severity and ensuring the response is appropriate to the infraction's level
The text questions whether a peon wasting time should be treated at par with a fraud involving crores. It suggests that "grade-wise segregation of unethical practices be done, and dealt with

NODIA

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(B) The conflict between company financial interests and employee privacy rights
The case highlights the employer's reasoning, which is to manage the high cost of group health insurance. However, this is contrasted with the employees' perspective that their personal habits outside the workplace are a matter of privacy. The central ethical dilemma is the clash between the employer's financial objective and the individual's fundamental right to privacy.

Oct/Nov 2015

29. In the case of Mr. KRR, whose hotel stay details were leaked to his wife, which action by a hotel employee represents the primary violation of a core ethical principle?
(A) Analysing aggregated guest data in order to retain esteemed clients
(B) Recommending the hotel's services to personal friends and relatives
(C) Leaking a specific guest's personal consumption and private travel information
(D) Using the hotel's own internal travel desk service for personal convenience

Ans :

(C) Leaking a specific guest's personal consumption and private travel information
The primary ethical violation is the act of leaking a guest's private information. While analysing guest data for service improvement is a legitimate business practice, sharing specific, personal details about a guest's stay, food and drink consumption, and places visited with an unauthorized third party is a severe breach of confidentiality and trust.

May/June 2013

30. What fundamental banking principle is Ms. BD, the probationary officer, being asked to violate when requested by her friend's mother to share financial details of potential grooms?
(A) The principle of fair treatment
(B) The principle of duty-mindedness
(C) The principle of transparency
(D) The principle of customer confidentiality

Ans :

(D) The principle of customer confidentiality
The case explicitly states that bank authorities would treat sharing specific customer information as a "serious breach of trust the customers have on the bank for confidentiality of their financial details." The core ethical dilemma for Ms. BD is the pressure to violate her professional duty to maintain the strict confidentiality of customer account information.

NODIA

Oct/Nov 2021

31. Which of the following activities, when performed during office time, is explicitly mentioned as an example of conducting personal business?
(A) Preparing and filing personal income tax returns for oneself and for relatives
(B) Reading industry-related news articles to stay updated on current market trends
(C) Networking with colleagues from other departments to build professional relationships
(D) Mentoring a junior employee on how to complete a complex, work-related task

Ans :

(A) Preparing and filing personal income tax returns for oneself and for relatives
The chapter provides a specific list of unrelated tasks that employees might do at the workplace. Among these, "Taking up preparation/filing of tax-returns for self, spouse and relatives" is clearly identified as an example of an employee conducting personal business during office time, which is considered an unethical use of company resources and time.

May/June 2024

32. According to the text, which of the following is a potential reason why an employee might indulge in conducting personal business during office hours?
(A) Having a very high work ethic and respect for customers
(B) Being demotivated and distracted due to denial of a promotion
(C) Being highly motivated by a recent promotion
(D) Believing that multitasking improves overall productivity

Ans :

(B) Being demotivated and distracted due to denial of a promotion
The chapter lists several reasons for employees engaging in personal work. One of the specified reasons is being "Demotivated and distracted due to denial of promotion." This suggests that a perceived injustice or lack of recognition from the organization can lead an employee to disengage

allows certain individuals to shirk responsibility and then use their social skills to falsely claim contributions during reviews. This shows a direct causal link between the team structure and the unethical behaviour, as described in the chapter.

Oct/Nov 2022

57. Which of the following statements is a correct representation of the concepts discussed in the chapter?

(A) Work ethics have universally similar connotations across all countries, religions, and organizations.

(B) An employee's ethical characteristics are entirely innate and cannot be developed through training or a proper work environment.

(C) Helping a semi-literate customer fill a form is an example of acceptable ethical behaviour for a bank employee.

(D) Disputes between colleagues should be debated in public to ensure a transparent resolution.

Ans :

(C) Helping a semi-literate customer fill a form is an example of acceptable ethical behaviour for a bank employee.

The chapter explicitly mentions that bank staff should help semi-literate or illiterate customers fill out forms. In contrast, it states that work ethics do not have universal connotations, that ethics can be developed through interventions, and that employee disputes should be handled privately, making the other options incorrect representations of the chapter's content.

May/June 2018

58. An employee is observed using office hours to complete school assignments for their children. According to the chapter, this action is an example of:

(A) Conducting personal business during office time

(B) A low work ethic and a lack of respect for customers

(C) The influence of unprincipled leadership

(D) A justifiable use of downtime

Ans :

(A) Conducting personal business during office time

The text provides a specific list of activities that constitute conducting personal business during office time. "Completing the school assignments for their kids" is explicitly included in this list. This behaviour is categorized as an unethical use of the employer's time and resources, separate from other causes like leadership influence, though it may stem from low work ethic.

Oct/Nov 2016

59. What is the role of an unassertive reporting officer or management in the context of employees conducting personal business during office hours?

(A) They actively encourage employees to complete personal tasks at work.

(B) They are responsible for designing the Code of Ethics manual.

(C) They are the primary victims of data leakage by employees.

(D) They are listed as a reason why such unethical behaviour may occur or persist.

Ans :

(D) They are listed as a reason why such unethical behaviour may occur or persist.

The chapter lists "Unassertive reporting officer/ management" as one of the reasons why employees might indulge in personal work during office time. This implies that when supervisors fail to hold employees accountable for their use of time, it creates an environment where such unethical behaviour can continue without consequence, effectively enabling the practice.

May/June 2014

60. According to the chapter, which of the following is NOT a reason for an employee to conduct personal business during office time?

(A) Greed to earn more money through side activities

(B) Having a high degree of energy and commitment to work

(C) Being demotivated due to denial of promotion

(D) Not being given an adequate workload

Ans :

(B) Having a high degree of energy and commitment to work

A high degree of energy and commitment to work is listed as an indicator of an ethical workplace, where employees go the extra

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appropriately." This means that while all wrong deeds should be noted, the response and controls should be proportional to the severity and impact of the unethical act.

Oct/Nov 2013

37. What is the "ethical recovery paradox"?

(A) The paradox suggesting that highly ethical firms often face a greater number of reported ethical violations

(B) The paradox that punishing an ethical violation too harshly can inadvertently lead to lower overall company morale

(C) The paradox where effectively handling an ethical violation can restore and even enhance employee confidence

(D) The paradox that employees who report ethical violations are sometimes viewed with suspicion by their peers

Ans :

(C) The paradox where effectively handling an ethical violation can restore and even enhance employee confidence

The chapter states, "An ethical recovery paradox may exist if firms go the extra mile to deal with an ethical violation in a highly effective way. Such actions could, therefore, restore and enhance employee confidence and support." This suggests that a strong, positive response to a negative event can paradoxically lead to a better outcome.

May/June 2015

38. At which career stage, defined as 7-15 years into banking, are employees best suited to be deployed as trainers and coaches on ethical matters for new recruits?

(A) Initial stage

(B) Middle management stage

(C) Senior management stage

(D) Executive leadership stage

Ans :

(B) Middle management stage

The text identifies the middle management stage (7–15 years into banking) as the ideal time for employees to act as trainers and coaches. The reasoning is that they have a smaller gap with new recruits compared to senior executives, making them more approachable. Younger employees are more likely to open up and confide in them about ethical dilemmas.

NODIA

Oct/Nov 2012

39. What is the correct chronological order of the ethical development stages for a banker as outlined in the chapter?

(A) Senior management (>15 years) → Middle management (7-15 years) → Initial stage (0-7 years)

(B) Middle management (7-15 years) → Initial stage (0-7 years) → Senior management (>15 years)

(C) Initial stage (0-7 years) → Senior management (>15 years) → Middle management (7-15 years)

(D) Initial stage (0-7 years) → Middle management (7-15 years) → Senior management (>15 years)

Ans :

(D) Initial stage (0-7 years) → Middle management (7-15 years) → Senior management (>15 years)

The chapter presents a clear progression for evaluating a banker's ethical commitment. It starts with the initial stage (up to the first 5-7 years), moves to the middle management stage (7-15 years), and concludes with the senior management level (normally after 15 years), outlining distinct roles and responsibilities for ethical grooming at each phase.

May/June 2011

40. Which of the following is NOT listed as a major ethical quality expected of a banker?

(A) Aggressive salesmanship

(B) Honesty and Integrity

(C) Commitment to Customers

(D) Confidentiality

Ans :

(A) Aggressive salesmanship

The chapter lists several major ethical qualities expected of a banker, including Honesty and Integrity, Commitment to Customers, Confidentiality, Fair treatment, Transparency, and Duty-mindedness. Aggressive salesmanship is a business tactic and is not listed as a core ethical quality; in fact, if pursued without regard to other principles, it could lead to unethical behaviour.

(C) The right to demand financial compensation from the bank
(D) The right to have their identity remain secret even if the complaint is vexatious

Ans :

(B) The right to be given an opportunity of hearing by the bank
The excerpt clearly protects the complainant from arbitrary action by the bank. Even if the RBI advises the bank that a complaint was vexatious, the bank cannot take action unilaterally. It explicitly states that "An opportunity of hearing will, however, be given by the concerned bank to the complainant before taking such action."

Oct/Nov 2025

49. The Whistle Blowers Protection Act, 2011, which received presidential assent in May 2014, provides a mechanism to investigate alleged wrongdoing in which of the following?
(A) Private corporations and multinational companies only
(B) Government bodies, projects, and offices
(C) Non-governmental organizations (NGOs) only
(D) All financial institutions, including foreign banks

Ans :

(B) Government bodies, projects, and offices
The text states that the Whistle Blowers Protection Act, 2011, "provides a mechanism to investigate alleged corruption and misuse of power by public servants and also protect the complainant who exposes alleged wrongdoing in government bodies, projects and offices." This specifies its focus on the public sector and government-related entities.

May/June 2012

50. Under the Whistle Blowers Protection Act, 2011, which body is assigned the responsibility for the protection of a genuine complainant?
(A) The Central Vigilance Commission (CVC)
(B) The Reserve Bank of India (RBI)
(C) The Supreme Court of India
(D) The concerned government department's internal vigilance cell

Ans :

(A) The Central Vigilance Commission (CVC)
The chapter clearly mentions that under this Act, "The protection of genuine complainant is the responsibility of the CVC." This designates the Central Vigilance Commission as the key authority tasked with safeguarding whistle-blowers who expose corruption and mismanagement in public bodies, and the Act also provides for punishment for false or frivolous complaints.

Oct/Nov 2014

51. Which of the following statements regarding the RBI's Protected Disclosures Scheme is INCORRECT?
(A) The scheme covers complaints related to corruption, fraud, and non-compliance with regulations.
(B) Employees of the bank, customers, and NGOs are eligible to lodge complaints.
(C) Anonymous and pseudonymous complaints are prioritized for immediate investigation.
(D) The RBI is the Nodal Agency designated to receive complaints under this scheme.

Ans :

(C) Anonymous and pseudonymous complaints are prioritized for immediate investigation.
The chapter explicitly states that under the RBI's scheme, "Anonymous/pseudonymous complaints will not be entertained." This means such complaints are rejected, not prioritized. Complainants must provide their identity, which is then kept confidential by the RBI to ensure the integrity of the process and the protection of the whistle-blower.

May/June 2019

52. The Companies Act, 2013, contains provisions that require specified categories of companies to have a:
(A) Customer service committee
(B) Profit-sharing scheme
(C) Social media policy
(D) Vigil mechanism

Ans :

(D) Vigil mechanism
The text mentions that most Indian banks are subject to the Companies Act, 2013. It further states, "The Act and the rules framed thereunder contain certain provisions requiring specified categories of companies to have a vigil mechanism." This mechanism is essentially a

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Oct/Nov 2009

45. Read the following excerpt:
"Anonymous/pseudonymous complaints will not be entertained. RBI is the Nodal Agency to receive complaints under the Scheme. The identity of the complainant is kept secret, except if complaint turns out to be vexatious or frivolous and action has to be initiated against the complainant."
What does this rule imply?
(A) The RBI is required to investigate all complaints, even if the original sender is completely unknown
(B) Complainants are permitted to use a fake name (pseudonym) in order to protect their true identity
(C) A complainant must provide their identity, which is protected unless the complaint is proven to be malicious
(D) The identity of a complainant is automatically revealed to the bank as soon as a formal complaint is received

Ans :

(C) A complainant must provide their identity, which is protected unless the complaint is proven to be malicious
The text explicitly states that anonymous or pseudonymous complaints are not entertained, meaning the complainant must identify themselves. It also assures that this identity is kept secret. The only exception mentioned for revealing the identity is if the complaint is found to be vexatious or frivolous, and action is required against the complainant.

May/June 2023

46. According to the procedure for lodging a complaint under the 'Protected Disclosures Scheme for Banks', which detail must be provided in the covering note?
(A) The complainant's bank account number
(B) The expected timeline for resolution
(C) A list of potential witnesses
(D) The name, designation, and address of the complainant

Ans :

(D) The name, designation, and address of the complainant
The section on the "Procedure for lodging the complaint" is very specific. It mandates that the "Name, designation and address of the complainant must be given in the covering note." This information is essential for the complaint to be considered valid, as anonymous and pseudonymous complaints are not entertained under the scheme's rules.

Oct/Nov 2018

47. Read the following excerpt: "In order to protect the identity of the complainant, RBI will not issue any acknowledgement of receipt of the complaint and the complainants are advised not to enter into any further correspondence with the RBI in their own interest."
What is the primary purpose of this procedure?
(A) To maintain process secrecy and protect the complainant from potential workplace retaliation
(B) To actively discourage individuals from filing potentially valid complaints in the future
(C) To significantly reduce the administrative and correspondence workload of the RBI staff
(D) To ensure that all subsequent communication is handled directly through the concerned bank's management

Ans :

(A) To maintain process secrecy and protect the complainant from potential workplace retaliation
The rule of not sending an acknowledgement or engaging in further correspondence is a security measure. By minimizing communication, the RBI reduces the paper trail and the risk that the complainant's identity could be accidentally exposed. This is done to protect the whistle-blower from any potential adverse consequences for reporting the wrongdoing.

May/June 2007

48. Read the following excerpt: "The institution against which complaint has been made can take action against complainants for motivated/ vexatious complaints, after being advised by RBI. An opportunity of hearing will, however, be given by the concerned bank to the complainant before taking such action."
What is a key right of a complainant accused of filing a vexatious complaint?
(A) The right to appeal the RBI's decision in a court of law
(B) The right to be given an opportunity of hearing by the bank

NODIA

"Appreciation and Rewards for ethical behaviour" is a suggested remedy. By formally recognizing and rewarding employees who demonstrate high ethical standards, the organization sends a powerful message. It reinforces that integrity is a valued attribute, thereby encouraging others to emulate such behaviour and helping to build a strong, positive ethical culture throughout the workplace.

Oct/Nov 2024

25. The practice of "imitable behaviour by the Top Management" is considered a remedy for unethical conduct because:

(A) It ensures that the company will always be profitable
(B) It eliminates the need for an internal audit department
(C) It sets a clear, positive ethical standard for all employees to follow
(D) It automatically prevents any form of data leakage

Ans :

(C) It sets a clear, positive ethical standard for all employees to follow
Top management's actions have a profound influence on the entire organization. When leaders consistently demonstrate high ethical standards in their own conduct, their behaviour becomes "imitable" or worthy of being copied. This provides a clear and powerful example for all other employees, effectively setting the ethical tone and standard for the entire workplace culture.

May/June 2017

26. Based on the case of Mr. RK, who sent a critical email from his official ID, what was the most significant outcome for the bank after the incident was resolved?

(A) The bank revised its Code of Ethics to incorporate specific norms on official email usage
(B) The bank immediately fired the top executive who was accused in the email by Mr. RK
(C) The bank implemented a new policy to monitor all outgoing emails from its employees
(D) The bank gave a special promotion to the Head of Department who first reported Mr. RK

Ans :

(A) The bank revised its Code of Ethics to incorporate specific norms on official email usage
The case study concludes by stating that after Mr. RK quit, the management "promptly acted on the advice of the committee and the existing Code of Ethics was revised by incorporating a half a page on the email norms." This proactive step to prevent future incidents was the key organizational outcome, demonstrating a move to strengthen its ethical framework.

Oct/Nov 2005

27. The ethical issue of considering pregnancy a disqualification during pre-employment medical tests, as discussed in the chapter, primarily highlights a conflict with principles of:

(A) Financial prudence
(B) Customer confidentiality
(C) Workplace safety
(D) Gender discrimination

Ans :

(D) Gender discrimination
The case study explicitly questions this practice, asking, "Does this amount to gender discrimination, which is unethical and illegal?" The issue arises because pregnancy is a condition unique to women, and using it as a basis for disqualification from employment creates an unfair barrier for female candidates, which is a clear form of gender-based discrimination.

May/June 2020

28. What is the core ethical conflict presented in the case where a company's HR department conducts medical checks for personal habits like smoking and shares this data with an insurance company?

(A) The conflict between insurance company policies and established hospital medical ethics
(B) The conflict between company financial interests and employee privacy rights
(C) The conflict between highly productive employees and those considered non-productive
(D) The conflict between the HR department's authority and an employee's defined job responsibilities

Ans :

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formal whistle-blower policy mandated by law for certain types of companies.

Oct/Nov 2006

53. Assertion (A): Constant surveillance of employees through methods like video footage can be detrimental to workplace morale.
Reason (R): Such surveillance is often perceived by employees as invasive, a form of interference, and a sign of presumptive untrustworthiness from senior management.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
(C) (A) is true but (R) is false
(D) (A) is false but (R) is true

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
The assertion correctly states that constant surveillance can negatively impact morale. The reason accurately explains why this occurs: employees feel that such measures demonstrate a lack of trust from their employer. The text notes that surveillance "is considered as invasive, interference and presumptive untrustworthiness," directly linking the method to the negative employee perception.

May/June 2021

54. Identify the INCORRECT pair from the following options related to unethical behaviours.
(A) Cause: Unrealistic Targets - Effect: Employees resort to shortcuts by claiming work which was never done.
(B) Cause: Means are not appreciated - Effect: Employees refuse to accept gifts or favours from customers.
(C) Cause: Unprincipled Leadership - Effect: Middle and junior level employees lose respect towards such leaders.
(D) Cause: Influence of Co-employees - Effect: New recruits learn unethical behaviour from their superiors or colleagues.

Ans :

(B) Cause: Means are not appreciated - Effect: Employees refuse to accept gifts or favours from customers.
The cause "Means are not appreciated" leads to an environment where unethical methods are used to achieve results, as the ends justify the means. Refusing gifts is an ethical behaviour, not an effect of this negative cause. The other pairs correctly link a cause of unethical behaviour to its corresponding effect as described in the chapter.

Oct/Nov 2010

55. Consider the following statements about work ethics and the workplace:
I. Developing an Ethics Manual and having conversations about ethics are considered remedies for unethical behaviour.
II. Taking credit for others' work is a problem that demotivates sincere employees.
III. It is considered ethical to follow a superior's order even if it is violative of a law.
Which of the above statements are correct?
(A) I and II only
(B) II and III only
(C) I and III only
(D) I, II and III

Ans :

(A) I and II only
Statement I is correct, as both developing an ethics manual and having conversations are listed as remedies. Statement II is also correct, as the text clearly states this problem demotivates sincere workers. Statement III is incorrect; the chapter specifies that acting upon instructions that are violative of a law or regulation is unethical.

May/June 2005

56. Assertion (A): The problem of taking credit for others' work arises when individual tasks are mixed with team-based work.
Reason (R): In a mixed-task environment, some team members who are inherently weak or have low work ethic can evade their assigned work and later make rehearsed statements to claim credit.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
(C) (A) is true but (R) is false
(D) (A) is false but (R) is true

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A)
The assertion correctly identifies the context where this problem occurs. The reason provides the precise mechanism: the team structure

NODIA

Oct/Nov 2020

41. What is the primary role of senior management (after 15 years in banking) in fostering an ethical culture, according to the text?

(A) To take on the primary responsibility of directly training new recruits on the bank's code of conduct

(B) To focus exclusively on the high-level task of liaising with external regulators and government bodies

(C) To resolve issues, foster open talks, and guide subordinates through difficult professional decisions

(D) To engage in the personal monitoring of the daily work activities of all employees within their division

Ans :

(C) To resolve issues, foster open talks, and guide subordinates through difficult professional decisions

At the third stage (senior management), executives are expected to resolve workplace issues, foster an environment of free and open communication with seniors, and openly encourage honest behaviour. They should also familiarize employees with senior-level pressures and guide them in decision-making to protect and enhance the bank's reputation, reflecting a high-level strategic role.

May/June 2022

42. The whistle-blower policy for public sector banks and the RBI was brought under the purview of which body with effect from April 21, 2004?

(A) Central Vigilance Commission (CVC)

(B) Serious Fraud Investigation Office (SFIO)

(C) Reserve Bank of India (RBI)

(D) Companies Act, 2013

Ans :

(A) Central Vigilance Commission (CVC)

The text explicitly states that the "Whistle-blower policy for the public sector banks and RBI was brought under the purview of the Central Vigilance Commission (CVC) with effect from April 21, 2004." This established the CVC as the overseeing authority for whistleblowing mechanisms in these key financial sector institutions from that date.

Oct/Nov 2023

43. On which date did the Reserve Bank of India introduce the 'Protected Disclosures Scheme for Private Sector and Foreign Banks'?

(A) April 21, 2004

(B) May 1, 2014

(C) April 1, 2013

(D) April 18, 2007

Ans :

(D) April 18, 2007

After the policy for public sector banks was established, the RBI extended a similar framework to other banks. The chapter specifies that "On April 18, 2007, the Reserve Bank of India brought out the 'Protected Disclosures Scheme for Private Sector and Foreign Banks'" to create a whistle-blower mechanism for these two categories of banks.

May/June 2016

44. Read the following excerpt:

"The Scheme covers complaints of corruption, misuse of office, criminal offences, suspected/ actual fraud, non-compliances with regulations etc., acts resulting in financial loss/operational risk, loss of reputation, and acts detrimental to depositors' interest/ public interest."

Based on this, which of the following would be covered under the scheme?

(A) A complaint about an employee's poor time management

(B) A complaint regarding a bank branch's non-compliance with RBI regulations

(C) A complaint about a disagreement over a performance appraisal

(D) A complaint about the inconvenient location of a bank's ATM

Ans :

(B) A complaint regarding a bank branch's non-compliance with RBI regulations

The excerpt clearly lists "non-compliances with regulations" as one of the issues covered by the whistle-blower scheme. A complaint about a branch violating RBI rules falls directly under this category. The other options relate to internal HR matters or customer convenience issues, which are not within the specified scope of corruption, fraud, or regulatory non-compliance.

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mile for customers. The reasons provided for conducting personal business are all negative, such as greed, demotivation, unquestioned job security, inadequate workload, and low work ethic, making high commitment an opposing characteristic.

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Ans :

(C) Patent
The scenario describes a new technical solution to a problem, which is the exact definition of an invention eligible for a patent. The text defines a patent as an exclusive right for an invention that "offers a new technical solution to a problem." Copyright protects expression, and a trademark protects a brand, but a patent protects the invention itself.

Oct/Nov 2013

36. Who is considered the custodian of the customer and dealings information within a bank or financial institution?
(A) The CEO
(B) The branch managers
(C) The internal audit team
(D) The IT team

Ans :

(D) The IT team
The chapter on the ethics of information security begins by stating, "The IT team of the bank or financial institution is the custodian of the information of its customers/dealings/activities." This designates the IT department with the primary responsibility for safeguarding this critical and sensitive data, making their ethical conduct paramount for the organization.

May/June 2015

37. What are the potential consequences of a failure in ethical conduct by professionals handling a bank's IT and data?
(A) A mandatory increase in interest rates
(B) An automatic downgrade of the bank's credit rating
(C) Major leakages of sensitive information, reputation risk, and legal battles
(D) A temporary suspension of online banking services

Ans :

(C) Major leakages of sensitive information, reputation risk, and legal battles
The text warns that "Any failure of professionals handling the IT desk and data can result in major leakages of sensitive information, with huge losses to the banks, reputation risk, and expensive legal battles." This highlights the severe and multi-faceted damage that can arise from lapses in information security and ethical conduct by the IT team.

Oct/Nov 2012

38. To whom does the need for training on the importance and criticality of ethical behavior apply within a bank?
(A) Only employees working directly within the IT department
(B) All employees, including those in IT, operations, and support functions
(C) Only senior management and the executive leadership team
(D) Only new recruits as part of their initial induction program

Ans :

(B) All employees, including those in IT, operations, and support functions
The chapter emphasizes the widespread need for ethical awareness. It states that proper training, orientation, and refresher courses should be for all employees to understand ethical behavior's importance. It explicitly clarifies, "This applies to the employees posted not only in the IT department, but also in operations and various support functions."

NODIA

May/June 2011

39. Which of the following is a key aspect of information security training for bank employees?
(A) Learning how to bypass security protocols for faster service.
(B) Training them to develop new security software.
(C) Encouraging them to use personal devices for bank work.
(D) Advising them about various types of prevalent cybercrimes.

Ans :

(D) Advising them about various types of prevalent cybercrimes.
The text lists specific aspects of information security that require particular attention in employee training. One of these is "Advising about various types of prevalent cybercrimes." This proactive education helps employees recognize and respond appropriately to potential threats, forming a critical line of defense for the bank and its customers against malicious activities.

May/June 2010

5. Information Technology has been utilized in banking primarily through two main avenues. What are these two avenues?

(A) Marketing campaigns and human resources management

(B) Internal audit procedures and regulatory compliance

(C) Communication and connectivity, and business process reengineering (BPR)

(D) Physical branch security and cash management logistics

Ans :

(C) Communication and connectivity, and business process reengineering (BPR)

The text explicitly identifies two main avenues for the use of IT in banking. These are communication and connectivity, which facilitates interaction and outreach, and business process reengineering (BPR), which involves fundamentally rethinking and redesigning core business processes to achieve dramatic improvements in performance. This dual application has transformed banking operations.

Oct/Nov 2018

6. The adoption of IT has changed the contours of three major functions of banks. Which of the following is NOT one of these functions?

(A) Access to liquidity

(B) Management of physical branches

(C) Transformation of assets

(D) Monitoring of risks

Ans :

(B) Management of physical branches

The chapter specifies that the contours of three major banking functions have changed due to IT: access to liquidity, transformation of assets, and monitoring of risks. While IT has certainly influenced branch operations, the management of physical branches is not listed among these three core functional areas that have been fundamentally reshaped.

May/June 2007

7. How has the basis for considering a bank "customer-friendly" evolved from the previous millennium to the current era of electronic channels?

(A) It has shifted from branch manager availability to the number of ATMs.

(B) It has shifted from low service charges to high interest rates on deposits.

(C) It has remained unchanged, focusing on the size of the branch network.

(D) It has shifted from courtesy at branches to instant feedback via mobile screens.

Ans :

(D) It has shifted from courtesy at branches to instant feedback via mobile screens.

In the past, a bank was deemed customer-friendly based on in-branch experiences like courtesy, service efficiency, and issue resolution by staff. With the spread of electronic channels, this perception is now heavily influenced by the digital experience, where a customer can instantly express satisfaction or dissatisfaction through their mobile screen, making digital interface quality paramount.

Oct/Nov 2025

8. Which of the following is a benefit of using IT-based tools like the internet, email, and mobile phones for customer communication?

(A) It offers cost-effective, personalized, and interactive communication.

(B) It guarantees complete security against all cyber threats.

(C) It eliminates the need for any human interaction with customers.

(D) It is only effective for high-net-worth urban customers.

Ans :

(A) It offers cost-effective, personalized, and interactive communication.

The text highlights that several IT-based tools and applications offer excellent opportunities for communication between a bank and its customers. The key advantages mentioned are that this communication can be cost-effective, personalized, and interactive. This allows banks to engage customers more effectively through newsletters, reminders, interactive games, and training, enhancing satisfaction and profitability.

May/June 2012

9. The adoption of latest technologies in banking, such as analytics and business intelligence, is primarily focused on enhancing which specific area?

(A) Corporate governance

(B) Human resource management

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(B) Integrity, awareness, and capability
To ensure the compliance and privacy of banking data, especially in outsourced environments, the chapter specifies that the personnel of both the bank and the FinTech provider must have an "appropriate level of integrity, awareness and capability." These qualities are essential for maintaining the security and confidentiality of sensitive customer information across all parties involved.

Oct/Nov 2007

18. Assertion (A): The adoption of IT has significantly changed how banks maintain relationships with external customers.
Reason (R): IT-based tools like email and mobile apps offer cost-effective, personalized, and interactive communication, leading to increased customer satisfaction.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
Assertion (A) is true as the text states that IT has "changed significantly the way organizations... maintain relationships with... external customers." Reason (R) is also true, as it lists the benefits of IT tools mentioned in the text. Reason (R) correctly explains Assertion (A) by detailing how these tools facilitate better communication, which is the mechanism for changing customer relationships.

May/June 2014

19. According to the RBI "Guidelines on Information security, Electronic Banking, Technology Risk Management and Cyber Frauds", what is the primary purpose of defining and implementing procedures for data in electronic form?
(A) To maximize data storage capacity.
(B) To facilitate easy sharing with marketing agencies.
(C) To ensure the integrity and consistency of the data.
(D) To prepare data for annual government audits.

Ans :

(C) To ensure the integrity and consistency of the data.
The first point of the RBI guidelines mentioned in the chapter is "To define and implement procedures to ensure integrity and consistency of all data electronic form (databases, data warehouses and data archives)." This foundational step is crucial for ensuring that the data held by the bank is accurate, reliable, and trustworthy for all subsequent operations.

NODIA

Oct/Nov 2024

20. Which of the following is NOT mentioned as a control for the secure storage of media in RBI's guidelines?
(A) Fire and flood protection
(B) Biometrics and keypad access
(C) Labelling and logged access
(D) Daily data backup to a public cloud

Ans :

(D) Daily data backup to a public cloud
The RBI guidelines for secure media storage include physical and environmental controls like fire and flood protection, and access limitation through physical locks, keypads, passwords, and biometrics. It also mentions labelling and logged access. However, the guidelines as presented in the text do not specify or recommend daily backups to a public cloud.

May/June 2025

21. What action must a bank take regarding customer account and transaction data that is being transmitted or transported to external parties?
(A) It must be anonymized.
(B) It must be converted to a paper format.
(C) It must be encrypted.
(D) It must be approved by the customer via SMS.

Ans :

(C) It must be encrypted.
The RBI guidelines are very specific on this point. Guideline (vi) states that banks "should encrypt customer account and transaction data which is transmitted, transported, delivered or couriered to external parties or other locations." Encryption is a critical security measure to protect data from unauthorized access while it is in transit outside the bank's secure environment.

as a term that "refers to technology facilitating regulatory compliance." This involves using technology to help firms meet their regulatory requirements more efficiently and effectively, a critical function in the highly regulated banking sector.

Oct/Nov 2010

14. What is the main objective of the 'Enabling Framework for Regulatory Sandbox' established by the RBI?

(A) To penalize banks for non-compliance with technology standards.
(B) To restrict the use of third-party FinTech applications in banking.
(C) To create a centralized database of all banking customers.
(D) To foster responsible innovation in financial services and promote efficiency.

Ans :

(D) To foster responsible innovation in financial services and promote efficiency.
The chapter states that the objective of the RBI's 'Enabling Framework for Regulatory Sandbox' is to foster responsible innovation in financial services, promote efficiency, and bring benefit to consumers. It provides a formal programme for market participants to test new products or business models in a live, controlled environment under regulatory oversight.

May/June 2005

15. Based on the following excerpt: "Based on the recommendation of the Working Group on Fintech and Digital Banking, RBI put in place an 'Enabling Framework for Regulatory Sandbox'. The objective is to foster responsible innovation in financial services, promote efficiency and bring benefit to consumers. It is a formal regulatory programme for market participants to test new products, services or business models with customers in a live environment, subject to certain safeguards and oversight."
What does the Regulatory Sandbox allow market participants to do?

(A) Test new offerings with customers in a live, controlled environment.
(B) Bypass all regulatory requirements for new products.
(C) Receive direct funding from the RBI for innovative ideas.
(D) Operate indefinitely without any regulatory oversight.

Ans :

(A) Test new offerings with customers in a live, controlled environment.
The excerpt clearly states that the Regulatory Sandbox is a formal programme that allows market participants "to test new products, services or business models with customers in a live environment." This testing is not without rules; it is explicitly mentioned to be "subject to certain safeguards and oversight," ensuring that innovation is pursued responsibly.

Oct/Nov 2016

16. What is a critical requirement for banks when they outsource technology-based activities to FinTech companies?

(A) To transfer all compliance responsibilities to the FinTech company.
(B) To have a strict internal control system to ensure the FinTech company's adherence to bank procedures.
(C) To acquire a majority stake in the FinTech company.
(D) To limit the outsourcing to non-critical activities only.

Ans :

(B) To have a strict internal control system to ensure the FinTech company's adherence to bank procedures.
The chapter highlights that as technology activities are outsourced to FinTech companies, banks "need to have strict internal control system to ensure that FinTech companies adhere to the established internal procedures and compliance of the bank." This ensures that data security and privacy standards are maintained even when services are provided by third parties.

May/June 2018

17. What key attributes are required for the staff of both the bank and its FinTech service providers to ensure compliance and privacy of banking data?

(A) Advanced programming and coding skills
(B) Integrity, awareness, and capability
(C) Sales and marketing expertise
(D) Seniority and years of service in the industry

Ans :

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CHAPTER 55

Banking Ethics: Changing Dynamics

May/June 2016

1. According to the chapter's objectives, which of the following is a key learning outcome related to the impact of technology on banking?
   (A) To understand the history of manual banking processes
   (B) To know the impact of Information Technology on banking and financial services
   (C) To analyze the decline of traditional branch banking
   (D) To learn the methods of physical currency printing

   Ans :

   (B) To know the impact of Information Technology on banking and financial services
   The stated objectives of the unit explicitly mention that after studying it, a person will know the impact of Information Technology on banking and financial services. The other options are not listed as primary learning goals, which focus on IT's role, ethics in technology-based services, data security aspects, and issues related to data privacy.

Oct/Nov 2022

2. What major economic trend is identified as the driver for the integration of economies, societies, and the increased complexity in banking and financial services?
   (A) Globalization
   (B) Industrialization
   (C) Nationalization
   (D) Demonetization

   Ans :

   (A) Globalization
   The introduction section clearly states that globalization has led to the integration of economies as well as societies. This global connection through electronic communication and technologies has resulted in an exchange of diverse ideas and practices, thereby increasing the complexity of banking and financial services and creating a more challenging and competitive business environment with multiplying risk factors.

May/June 2021

3. For banks and financial institutions, what is the current status of adopting state-of-the-art technology for survival and growth?
   (A) A matter of strategic choice
   (B) A government-mandated pilot program
   (C) A matter of compulsion
   (D) A secondary priority after branch expansion

   Ans :

   (C) A matter of compulsion
   The text states that the use of state-of-the-art technology is "no more a matter of choice, but a matter of compulsion for banks and financial institutions to use... for survival and growth." This highlights the indispensable role of IT in the modern, competitive banking landscape, regardless of the customer segment, be it urban or rural.

Oct/Nov 2009

4. What challenge has arisen from bank mergers in the context of technology?
   (A) A decrease in the customer base
   (B) A surplus of physical branch locations
   (C) Regulatory opposition to technological integration
   (D) Different technological frameworks of the merging banks

   Ans :

   (D) Different technological frameworks of the merging banks
   The chapter mentions that mergers of banks have given rise to certain challenges. Specifically, it points out that these challenges are due to the different technological frameworks of the merging banks. Integrating these disparate systems is a significant hurdle that must be overcome post-merger to ensure seamless operations and service delivery for all customers.

NODIA

Oct/Nov 2019

22. Identify the incorrect statement regarding the RBI guidelines for data security in banks.

(A) Banks must have appropriate disposal procedures for both electronic and paper-based media.

(B) Banks are only responsible for data security within their own premises, not when shared with third parties.

(C) Banks should monitor for unauthorized software like password cracking software and key loggers.

(D) Banks must implement procedures to ensure the integrity and consistency of all data in electronic form.

Ans :

(B) Banks are only responsible for data security within their own premises, not when shared with third parties.

This statement is incorrect. Guideline (v) explicitly states that "Banks should maintain security of media while in transit or when shared with third parties." This clearly places the responsibility on the bank to ensure data security even when the data is outside its direct physical control, contradicting the idea that its responsibility is limited.

May/June 2009

23. A bank is decommissioning a set of old servers that were used to store customer transaction archives. According to the RBI guidelines mentioned in the chapter, which action is most critical for the bank to undertake?

(A) Sell the old servers to the highest bidder to recover costs.

(B) Store the servers in a non-secure warehouse indefinitely.

(C) Donate the servers to a local school for educational purposes.

(D) Follow an appropriate disposal procedure for the electronic media.

Ans :

(D) Follow an appropriate disposal procedure for the electronic media.

Guideline (iv) of the RBI states, "Banks need appropriate disposal procedures for both electronic and paper based media." Simply selling, storing insecurely, or donating servers that once held sensitive data would be a major security breach. A proper disposal procedure would involve securely wiping or destroying the hard drives to ensure no data can be recovered.

Oct/Nov 2011

24. What advantage do electronic means of fraud have over physical fraud, according to some studies mentioned in the chapter?

(A) They are easier to track.

(B) They are always less sophisticated.

(C) They are completely untraceable.

(D) They involve smaller financial losses.

Ans :

(A) They are easier to track.

The chapter counters a common misconception by stating that "Some studies show that it is easier to track frauds undertaken through electronic means than physical fraud." This is because electronic transactions create a digital trail that can be analyzed, whereas physical fraud may leave fewer clues, making investigation and tracking more difficult.

May/June 2017

25. What role can FinTech companies play in combating fraud, as suggested in the chapter?

(A) Act as the primary regulator for fraud prevention.

(B) Manually review all high-value transactions.

(C) Use technology and analytics to prevent and predict frauds.

(D) Provide legal counsel to banks during fraud investigations.

Ans :

(C) Use technology and analytics to prevent and predict frauds.

The text suggests that "FinTech companies can use technology and analytics to prevent and predict frauds." The onus could be on these players to utilize their technological expertise to assist in this area. This proactive approach, using advanced tools, is a key benefit that FinTechs can bring to the banking ecosystem to enhance security.

Oct/Nov 2005

26. The report by the committee headed by Retd. Justice B.N. Srikrishna (2018) identifies several principles for data protection laws. Which principle emphasizes that data collection should be minimal and necessary?

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(A) Data minimisation, ensuring that data collection is minimal and necessary
(B) Technology agnosticism, ensuring laws apply to all current and future systems
(C) Informed consent, requiring clear and explicit user permission for data use
(D) Accountability of data controller, placing responsibility on the data-collecting entity

Ans :

(A) Data minimisation, ensuring that data collection is minimal and necessary
The chapter lists seven principles from the Justice B.N. Srikrishna committee report. The principle of "Data minimisation" is explicitly defined as ensuring that the "data sought and processed should be minimal and as necessary." This principle aims to limit the collection of personal data to only what is strictly required for the specified purpose.

May/June 2020

27. Consider the following principles for data protection laws from the Justice B.N. Srikrishna Committee report:
1. Technology agnosticism
2. Data minimisation
3. Informed consent
4. Accountability of data controller

Which principle implies that a data protection law must be adaptable to future technological changes?
(A) Principle 1
(B) Principle 2
(C) Principle 3
(D) Principle 4

Ans :

(A) Principle 1
The source text defines "Technology agnosticism" as the principle that the "data protection law must be flexible to include the changing technologies." This means the law should be designed in a way that it remains relevant and effective over time, without being tied to any specific current technology, thus ensuring its longevity and applicability.

Oct/Nov 2015

28. According to the Srikrishna Committee's principles, what is "Informed consent" considered to be an expression of?
(A) Corporate social responsibility
(B) Human autonomy
(C) Regulatory compliance
(D) Technological advancement

Ans :

(B) Human autonomy
The chapter outlines the principles from the Srikrishna Committee report and specifies that "Informed consent – consent is an expression of human autonomy." This principle frames the act of giving consent for data processing not just as a procedural step, but as a fundamental exercise of an individual's right to self-determination and control over their personal information.

May/June 2013

29. What does Intellectual Property (IP) refer to?
(A) A physical asset owned by a corporation.
(B) Any property that is publicly owned and free to use.
(C) The creation of an asset by an individual using their creativity and innovation.
(D) The net financial worth of an organization's ideas.

Ans :

(C) The creation of an asset by an individual using their creativity and innovation.
The text defines intellectual property as the "creation of an asset by any individual or anyone using his or her creativity, innovation." It belongs to that individual, and its unauthorized use is prohibited by law. Examples provided include artistic works, symbols, and innovative processes, distinguishing it from tangible, physical assets like buildings or equipment.

Oct/Nov 2021

30. Intellectual property is divided into two main categories. What are they?
(A) Trademarks and Designs
(B) Inventions and Films
(C) Literary works and Artistic works
(D) Patents and Copyrights

Ans :

(D) Patents and Copyrights
The chapter explicitly states that "Intellectual property is divided into two categories: Patents... and Copyright..." While things like trademarks, designs, inventions, and literary works are examples of intellectual property, they fall under these two primary classifications. Patents

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cover inventions and industrial designs, while Copyrights cover literary, artistic, and other creative works.

May/June 2024

31. Which of the following is categorized under 'Patents' as a form of intellectual property?
(A) Inventions and industrial designs
(B) Literary works and films
(C) Music and artistic works
(D) Architectural design

Ans :

(A) Inventions and industrial designs
The text clearly lists the items that fall under the category of Patents. It states, "Patents: inventions, trademarks, industrial designs and geographical indications." Literary works, films, music, artistic works, and architectural designs are all listed as examples that fall under the separate category of Copyright, not Patents, making this distinction clear.

Oct/Nov 2008

32. Rights related to the performances of performing artists, recordings of phonogram producers, and broadcasts of broadcasting organizations fall under which type of intellectual property rights?
(A) Patent-related rights
(B) Copyright-related rights
(C) Trademark-related rights
(D) Industrial design rights

Ans :

(B) Copyright-related rights
The chapter specifies that "Rights related to copyright include those of performing artists in their performances, producers of phonograms in their recordings, and broadcasters in their radio and television programs." These are often referred to as 'related rights' or 'neighbouring rights' and are firmly situated within the broader domain of copyright law.

May/June 2006

33. Based on the excerpt: "A patent is an exclusive right granted for an invention a product or process that provides a new way of doing something or that offers a new technical solution to a problem. A patent provides patent owners with protection for a limited period, generally 20 years for their inventions."
What is the typical duration of protection provided by a patent?
(A) 10 years
(B) 20 years
(C) 50 years
(D) For the lifetime of the inventor

Ans :

(B) 20 years
The provided text explicitly states that "A patent provides patent owners with protection for a limited period, generally 20 years for their inventions." This specific duration is a key feature of patent law, balancing the need to reward innovation with the goal of eventually allowing the invention to enter the public domain for wider use.

Oct/Nov 2017

34. What is the fundamental purpose of an Intellectual Property Right (IPR)?
(A) To allow the creator to use the IP for their benefit and prohibit third-party use.
(B) To ensure all innovations are made public immediately.
(C) To transfer the ownership of an innovation to the government.
(D) To provide a framework for collaborative use of all intellectual assets.

Ans :

(A) To allow the creator to use the IP for their benefit and prohibit third-party use.
The text describes Intellectual Property Rights (IPRs) as formal mechanisms that establish ownership in intellectual assets. It clearly states that an IPR "allows its creator/innovator to use the IP for his or her own benefit and prohibits any third party to use such work." This dual function of enabling personal benefit and excluding others is central.

May/June 2008

35. A software developer working for a bank creates a novel algorithm that significantly improves the accuracy of fraud detection in online transactions. This algorithm is a new, technical solution to a problem. To protect this asset, what form of Intellectual Property Right would be most appropriate for the bank to seek?
(A) Copyright
(B) Trademark
(C) Patent
(D) Geographical Indication

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(C) Customer Relationship Management (CRM)
(D) Treasury operations

Ans :

(C) Customer Relationship Management (CRM)
The chapter states that the focus of technology adoption has shifted to revolving around analytics and business intelligence. The primary goal of leveraging these technologies is explicitly mentioned as enhancing the bank's Customer Relationship Management (CRM). This helps in understanding customer behavior, personalizing services, and strengthening relationships for improved satisfaction and retention.

Oct/Nov 2014

10. What is the primary moral obligation of a bank concerning the vast amounts of customer data it collects, stores, and accesses?
(A) To prevent data leaks and data misuse
(B) To use the data for maximizing marketing revenue
(C) To sell the data to third-party analytics firms
(D) To store the data for a minimum of ten years

Ans :

(A) To prevent data leaks and data misuse
The chapter emphasizes that as banks handle extensive customer data, they have a primary moral obligation to prevent data leaks and misuse. Customers must be assured that their data is handled in a secured and confidential manner, which is fundamental to maintaining the trust and faith they place in the banking system.

May/June 2019

11. A bank's IT department employee is approached by a representative from a holiday resort company, who offers a significant sum of money in exchange for a list of customers with high account balances. Ethically, what does this situation represent and what is the required institutional response?
(A) A standard marketing collaboration; the bank should formalize the data sharing.
(B) A business opportunity; the employee should escalate it to the marketing head.
(C) A personal matter; the bank has no role in the employee's decision.
(D) A potential data leakage; the employee's actions should be monitored and data sharing is unethical.

Ans :

(D) A potential data leakage; the employee's actions should be monitored and data sharing is unethical.
The text directly addresses the issue of unsolicited marketing calls, implying data leaks. It states that IT personnel should be monitored to prevent them from leaking customer data to outsiders, whether for a reward or not. Such an act is described as unethical, and it is recommended that guilty employees should be severely dealt with.

Oct/Nov 2006

12. What is the definition of "FinTech" as described in the chapter?
(A) Technology focused on financial regulation and reporting.
(B) Technology for the delivery or facilitation of financial services.
(C) Technology used exclusively for internal bank auditing.
(D) Technology for managing a bank's physical security systems.

Ans :

(B) Technology for the delivery or facilitation of financial services.
The chapter explicitly defines FinTech as a coined term that "refers to technology for delivery/facilitation of financial services." It is distinct from RegTech, which focuses on regulatory compliance. FinTech innovations are seen as a valuable opportunity for banks to increase revenues and bring innovative benefits to customers through collaboration with FinTech companies.

May/June 2023

13. What is the primary purpose of "RegTech" in the financial industry?
(A) To develop new financial products for customers.
(B) To manage customer relationships.
(C) To facilitate regulatory compliance.
(D) To engineer business processes for efficiency.

Ans :

(C) To facilitate regulatory compliance.
The text clearly distinguishes between FinTech and RegTech. While FinTech is for the delivery of financial services, the chapter defines RegTech

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Oct/Nov 2020

40. An excerpt on information security ethics states that it is important for "Making the employees (especially the IT employees) aware of the patterns of IT attacks on bank customers/servers/ other assets like ATMs, etc. and to familiarise with the profiles of attackers and patterns of thefts and modus operandi."
What is the primary goal of this specific training initiative?
(A) To enable employees to recognize and understand the nature of IT threats.
(B) To train employees to physically apprehend attackers.
(C) To encourage employees to engage with attackers online.
(D) To help employees develop their own hacking skills for defensive purposes.

Ans :

(A) To enable employees to recognize and understand the nature of IT threats.
The excerpt's focus is on making employees aware of attack patterns, attacker profiles, and their methods (modus operandi). The objective is to build knowledge and familiarity with threats. This awareness is a defensive measure, enabling employees to better identify, prevent, and report suspicious activities, rather than engaging in offensive or physical countermeasures.

May/June 2022

41. Identify the correct pair from the following options based on the chapter's content.
(A) FinTech : Technology for internal auditing
(B) RegTech : Technology facilitating regulatory compliance
(C) BPR : A type of intellectual property
(D) CRM : A method for data encryption

Ans :

(B) RegTech : Technology facilitating regulatory compliance
The chapter explicitly defines RegTech as "technology facilitating regulatory compliance." FinTech is for delivering financial services, not auditing. Business Process Re-engineering (BPR) is a management strategy, not an intellectual property type. Customer Relationship Management (CRM) is a system for managing customer interactions, not a specific encryption method, making the RegTech definition the only correct pair.

Oct/Nov 2023

42. Which of the following statements about the role of ethics in technology is INCORRECT?
(A) Sharing customer data with resort operators for a reward is a permissible marketing activity.
(B) Banks have a moral obligation to prevent data leaks and misuse.
(C) IT department personnel should be monitored to ensure they do not leak customer data.
(D) Leaking customer data is unethical, and the guilty employee should be dealt with severely.

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Ans :

(A) Sharing customer data with resort operators for a reward is a permissible marketing activity.
The chapter strongly condemns the leakage of customer data for any reason, reward or not. It uses the example of unsolicited calls from resort operators to illustrate a potential data leak and states that such actions are unethical. Therefore, sharing data for a reward is not a permissible activity but a serious ethical breach.

May/June 2016

43. Consider the following statements regarding Data Security:
1. Banks should encrypt customer data when it is transported to external parties.
2. Banks need appropriate disposal procedures only for paper-based media, not electronic media.
3. Secure storage of media can include controls like biometrics and keypad access.

Which of the above statements is/are correct?
(A) 1 only
(B) 1 and 3 only
(C) 2 and 3 only
(D) 1, 2, and 3

Ans :

(B) 1 and 3 only
Statement 1 is correct as per RBI guidelines. Statement 3 is also correct, as biometrics and keypads are mentioned as controls for limiting access. However, Statement 2 is incorrect because the guidelines explicitly state that appropriate disposal procedures are needed for

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(B) It can lead to catastrophic consequences and may lead to the failure of the bank.
(C) It can result in negative media coverage and a short-term loss of public trust.
(D) It can cause a temporary decline in the bank's stock price and shareholder value.

Ans :

(B) It can lead to catastrophic consequences and may lead to the failure of the bank.
The summary section uses strong language to emphasize the criticality of data security. It warns that "Any lapse in the security can lead to catastrophic consequences and may well lead to failure of the bank." This highlights that data security is not just an operational issue but one that is existential for the institution.

May/June 2012

49. Assertion (A): It is easier to track frauds undertaken through electronic means than physical fraud.
Reason (R): FinTech companies can use technology and analytics to prevent and predict frauds.
(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
(C) (A) is true but (R) is false.
(D) (A) is false but (R) is true.

Ans :

(B) Both (A) and (R) are true but (R) is not the correct explanation of (A).
Both statements are true according to the chapter. Assertion (A) is true because electronic frauds leave a digital trail. Reason (R) is also true as FinTechs can leverage analytics for fraud detection. However, (R) explains how fraud can be prevented or predicted, not why it is easier to track after it has occurred.

Oct/Nov 2014

50. Which of the following combinations of concepts are all mentioned as keywords at the end of the chapter?
(A) CRM, Fintech, Regtech, Information Security
(B) Online banking, Fintech, Regtech, Data Minimisation
(C) Operational Efficiency, BPR, IPR, Data Privacy Bill
(D) Online banking, CRM, Patent, Copyright

Ans :

(A) CRM, Fintech, Regtech, Information Security
The keywords listed at the end of the chapter are Operational Efficiency, Online banking, Customer Relationship Management (CRM), Fintech, Regtech, Information Security, and Technology risk management. The correct combination contains four of these listed keywords. The other options include terms like Data Minimisation, BPR, IPR, and Data Privacy Bill, which are not in the final keyword list.

May/June 2019

51. Consider the following aspects related to the ethics of information security:
1. Making employees aware of professional obligations.
2. Advising employees about types of cybercrimes.
3. Familiarising IT employees with patterns of IT attacks.
4. Encouraging IT employees to develop their own hacking tools.

Which of the above aspects require particular attention for employee training?
(A) 1 and 2 only
(B) 1, 2 and 3 only
(C) 2, 3 and 4 only
(D) 1, 2, 3 and 4

Ans :

(B) 1, 2 and 3 only
The chapter lists three specific aspects for information security training: making employees aware of their professional obligations, advising them on prevalent cybercrimes, and making them aware of attack patterns and attacker profiles. Encouraging employees to develop their own hacking tools is not a recommended practice and would be a security risk, making statement 4 incorrect.

Oct/Nov 2006

52. Based on the text: "The IT team of the bank or financial institution is the custodian of the information of its customers/dealings/activities. Their work conduct and ethical conduct is of paramount importance for the organisation. Any failure of professionals handling the IT desk and data can result in major leakages of sensitive information, with huge losses to the banks, reputation risk, and expensive legal battles."

NODIA

"both electronic and paper based media," not just paper-based media.

Oct/Nov 2009

44. Match List-I (Concept) with List-II (Description).
List-I
P. Patent
Q. Copyright
R. RegTech
S. BPR
List-II
1. Technology facilitating regulatory compliance
2. Reengineering of business processes
3. IP for literary and artistic works
4. Exclusive right for an invention
(A) P-4, Q-3, R-1, S-2
(B) P-3, Q-4, R-2, S-1
(C) P-4, Q-1, R-3, S-2
(D) P-2, Q-3, R-1, S-4

Ans :

(A) P-4, Q-3, R-1, S-2
A Patent (P) is an exclusive right for an invention (4). Copyright (Q) protects literary and artistic works (3). RegTech (R) is technology that facilitates regulatory compliance (1). Business Process Reengineering (BPR) (S) is the redesign of business processes (2). This matching correctly aligns each concept with its description as provided in the chapter.

May/June 2023

45. Which of the following is NOT one of the seven principles for data protection laws identified by the Justice B.N. Srikrishna Committee?
(A) Data minimisation
(B) Informed consent
(C) Data monetization
(D) Technology agnosticism

Ans :

(C) Data monetization
The chapter lists seven principles from the Srikrishna Committee report: Technology agnosticism, Data minimisation, Informed consent, Accountability of data controller, Penalties for wrongful processing, and Enforcement. Data monetization, which refers to the process of generating revenue from available data, is not mentioned as one of the core principles for the data protection framework.

Oct/Nov 2018

46. A bank is developing a new mobile banking app. The project manager insists on collecting user location data, contact lists, and social media profiles, arguing it might be useful for future marketing. This approach is in direct conflict with which principle of the Srikrishna Committee report?
(A) Accountability of data controller
(B) Technology agnosticism
(C) Enforcement of data protection
(D) Data minimisation

Ans :

(D) Data minimisation
The principle of Data Minimisation, as outlined in the Srikrishna Committee report, states that data sought and processed should be minimal and as necessary for the service being provided. Collecting extensive, non-essential data like contact lists and social media profiles just in case it might be useful later directly violates this core privacy principle.

May/June 2007

47. Consider the following statements:
Statement I: The increasing use of Information Technology has made the banking and financial services sector less competitive.
Statement II: Banks are now compelled to use state-of-the-art technology.
(A) Both Statement I and Statement II are true.
(B) Both Statement I and Statement II are false.
(C) Statement I is false, and Statement II is true.
(D) Statement I is true, and Statement II is false.

Ans :

(C) Statement I is false, and Statement II is true.
Statement I is false; the text states that the use of IT has resulted in the "toughest competition." Statement II is true, as the chapter explicitly mentions that using state-of-the-art technology is now a "matter of compulsion for banks and financial institutions for survival and growth," not a choice, due to this intense competition.

Oct/Nov 2025

48. What is the most significant risk associated with any lapse in data security, as mentioned in the chapter's summary?
(A) It can lead to minor operational delays and customer inconvenience.

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(A) Different technological frameworks of merging banks
(B) A sudden increase in customer complaints
(C) The need for new intellectual property rights
(D) Conflicting data privacy principles

Ans :

(A) Different technological frameworks of merging banks
The chapter explicitly points out that "Mergers of banks have given rise to certain challenges due to different technological frameworks of the merging banks." The scenario of two banks using disparate core banking software is a direct, practical example of this specific challenge, which requires significant effort to harmonize for seamless post-merger operations.

May/June 2018

57. Which of the following is NOT an example of a control for secure media storage as per the RBI guidelines mentioned?
(A) Physical locks
(B) Fire protection
(C) Password cracking software
(D) Labelling

Ans :

(C) Password cracking software
The guidelines list several controls for secure storage, including physical locks, fire protection, and labelling. In contrast, "password cracking software" is mentioned in a separate guideline as an example of unauthorized software that banks should monitor for and block. It is a threat to be managed, not a control measure to be implemented for security.

Oct/Nov 2016

58. The principle of "Accountability of data controller" from the Srikrishna Committee report places responsibility for data handling on whom?
(A) The entity that collects and processes the data
(B) The individual customer providing the data
(C) The government's technology department
(D) The third-party auditors

Ans :

(A) The entity that collects and processes the data
The principle "Accountability of data controller" directly implies that the entity which controls the data (i.e., collects it and decides the purposes and means of its processing) is responsible for complying with the data protection law. This places the onus of safe and lawful handling of data squarely on the bank or financial institution.

May/June 2014

59. Consider the following statements about Intellectual Property:
1. A patent is an exclusive right granted for an invention.
2. A copyright protects literary and artistic works.
3. The protection period for a patent is generally 20 years.
4. Unauthorized use of IP is strictly prohibited under applicable law.

Which of the above statements are correct?
(A) 1 and 2 only
(B) 1, 2 and 3 only
(C) 2, 3 and 4 only
(D) 1, 2, 3 and 4

Ans :

(D) 1, 2, 3 and 4
All four statements are correct based on the chapter's content. The text defines a patent as an exclusive right for an invention, states that copyright covers literary and artistic works, specifies the patent protection period as generally 20 years, and confirms that unauthorized use of IP is prohibited by the law of the land.

Oct/Nov 2007

60. The chapter emphasizes that banks are making sincere efforts to educate and bring in awareness among whom?
(A) Their regulators
(B) Their customers
(C) Their competitors
(D) Their employees

Ans :

(B) Their customers
The chapter's summary concludes by stating, "Banks are making their sincere efforts to educate and bring in awareness among their customers." This is a crucial final point, indicating that in the fight against cybercrime and in promoting safe digital banking, customer education is a key strategy being pursued by banks to complete the security ecosystem.

NODIA

Why is the ethical conduct of the IT team considered of paramount importance?

(A) Because they are the highest-paid employees in the bank.
(B) Because they are directly responsible for the bank's profitability.
(C) Because they have the final say in all strategic decisions.
(D) Because their failure can lead to severe financial, reputational, and legal damage.

Ans :

(D) Because their failure can lead to severe financial, reputational, and legal damage.
The excerpt directly links the failure of IT professionals to "major leakages of sensitive information, with huge losses to the banks, reputation risk, and expensive legal battles." This establishes a clear cause-and-effect relationship where a lapse in their ethical conduct can have devastating, multi-faceted consequences, making their role and ethics critically important for the organization's stability.

May/June 2021

53. Identify the incorrect pair from the following options based on the chapter's content.

(A) Intellectual Property : Creation of an asset using creativity
(B) Patent : Protection for an invention, generally for 20 years
(C) Copyright : Covers inventions and industrial designs
(D) Data Minimisation : Processing should be minimal and necessary

Ans :

(C) Copyright : Covers inventions and industrial designs
This pair is incorrect. The chapter clearly states that Copyright covers "literary works, films, music, artistic works, and architectural design." It is the Patent category that covers "inventions, trademarks, industrial designs and geographical indications." The option incorrectly assigns the scope of patents to the copyright category, making it the incorrect pairing of concept and description.

Oct/Nov 2010

54. The shift in focus to technologies like analytics and business intelligence is aimed at improving internal effectiveness in which two key areas?

(A) Employee payroll and branch-level accounting
(B) Management Information Systems (MIS) and managing risks from IT implementation
(C) Physical security and vault management
(D) Marketing campaigns and public relations

Ans :

(B) Management Information Systems (MIS) and managing risks from IT implementation
The chapter states that "improving internal effectiveness includes Management Information Systems (MIS) and managing risks arising out of IT implementation are also key focus areas." This shows that beyond customer-facing enhancements like CRM, technology adoption is also critically focused on improving internal decision-making through better information systems and mitigating the new risks that technology itself introduces.

May/June 2005

55. What is the fundamental reason banks must ensure that their FinTech partners adhere to the bank's internal procedures and compliance standards?

(A) To help the FinTech partner grow their business and expand their market share.
(B) To reduce the bank's operational costs through economies of scale.
(C) To fulfill a mandatory requirement for stock exchange listing and regulatory filings.
(D) To manage the critical data security and privacy risks inherent in outsourcing.

Ans :

(D) To manage the critical data security and privacy risks inherent in outsourcing.
The text links the need for strict controls over FinTech partners directly to the heightened risks of outsourcing. It states, "As technology based activities are outsourced to FinTech companies to a greater extent, banks need to have strict internal control system" because "risks related to data security and privacy are much more critical."

Oct/Nov 2022

56. A bank has recently merged with another smaller bank. The IT integration team finds that the merged bank used a completely different, older core banking software. This situation presents a challenge primarily related to which aspect mentioned in the chapter?

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